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ROYAL COMMISSION ON TAXATION

Hearing held in the Centre Court
Room, Exchequer Court of Canada,
Supreme Court Building, Wellington
Street, Ottawa, on Thursday,
October 3rd, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S. M. MILNE

MR. CHARLES WALLS

LEGAL ADVISER:

MR. J. L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D. G. HARTLE

SECRETARY:

MR. G. L. BENNETT



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Ottawa, Ontario,
Thursday,
October 3, 1963.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Secretary, by our clock
I think we have now reached 9:30.

THE SECRETARY: Good morning Mr. Chairman,
Commissioners, this is our first day of the hearings
of the fall and winter session. We have a very large
group of participants this morning who appear before
you. I assume these are perhaps the most important
people in the cooperative movement in Canada who we
have here at this time.

We have a number of briefs, Mr. Chairman,
to enter into the record and after I enter them into
the record Mr. Staples, who is President of the
Cooperative Union of Canada, would like to say a few
words about his group and how he has organized it in
order to carry on with your questioning.

I understand Mr. Staples is going to act
as quarterback, so to speak, of this large team.

At this time, Mr. Chairman, I would like to
enter into the record the following briefs: A brief
from the Cooperative Union of Canada; Le Conseil
Canadien de la Cooperation, which I will enter as
Exhibit 198.

---EXHIBIT NO. 198: Joint brief of the
Cooperative Union of
Canada and Le Conseil
Canadien de la Cooperation.

THE SECRETARY: This is a brief submitted
jointly by the Cooperative Union of Canada and Le Conseil



1 Canadien de la Cooperation.

2 The second brief which I will enter into the
3 record is from the Canadian Cooperative Wheat Producers
4 (Limited), on behalf of the Alberta Wheat Pool, the
5 Manitoba Pool Elevators and the Saskatchewan Wheat Pool.
6 This brief will be Exhibit No. 199.

7 ---EXHIBIT NO. 199: Brief of the Canadian
8 Cooperative Wheat
Producers.

9 THE SECRETARY: There is a supplementary
10 brief by the Manitoba Pool Elevators which will be
11 entered into the record as Exhibit 200.

12 ---EXHIBIT NO. 200: Supplementary brief
13 entered by the Manitoba
Pool Elevators.

14 THE SECRETARY: This is followed by a brief
15 by the Fraser Valley Milk Producers and will be Exhibit
16 201.

17 ---EXHIBIT NO. 201: Brief of Fraser Valley
18 Milk Producers.

19 THE SECRETARY: Also a brief from the
20 Federated Cooperatives Limited which will be Exhibit 202.

21 ---EXHIBIT NO. 202: Brief of Federated
22 Cooperatives Limited.

23 THE SECRETARY: There is then a brief from
24 the Maritimes Cooperative Council submitted on behalf of
25 the Section of the Cooperative Movement in the Maritime
26 provinces of Canada. This will be Exhibit 203.

27 ---EXHIBIT NO. 203: Brief of Maritimes
28 Cooperative Council.

29 THE SECRETARY: There is a brief being
30 submitted by the United Maritime Fishermen Limited. This



1 is a supplementary brief to the main brief of the
2 cooperative union. It will be Exhibit 204.

3 ---EXHIBIT NO. 204: Brief of United Maritime
4 Fishermen

5 THE SECRETARY: Then we have a brief from the
6 Prince Rupert Fishermen's Cooperative which will be
7 Exhibit 205.

8 ---EXHIBIT NO. 205: Brief of Prince Rupert
9 Fishermen's Cooperative.

10 THE SECRETARY: Finally we have a brief
11 submitted by the St. Francis Xavier University (the
12 Extension Department) of Antigonish, Nova Scotia. This
13 will be Exhibit 206.

14 ---EXHIBIT NO. 206: Brief of St. Francis
15 Xavier University

16 THE SECRETARY: Those are the briefs, Mr.
17 Chairman, and Commissioners, which will be submitted
18 in the next two days by the gentlemen appearing before
19 you.

20 THE CHAIRMAN: Did you mention the Manitoba
21 Pool Elevators?

22 THE SECRETARY: I did, Mr. Chairman. That is
23 Exhibit 200.

24 THE CHAIRMAN: Good morning, Mr. Staples, Mr.
25 Blair and gentlemen. You have put before us a very
26 fascinating story of the cooperatives, and indeed it is
27 a very Canadian story and a story of Canada. It
28 refers to cooperatives on the prairies, in the west
29 and in the Maritimes and what they have accomplished
30 and, indeed the tale of St. Francis Xavier is a very



1 interesting one. Certainly it is not our job to pass
2 upon the social aspects, I do not think, except in so
3 far as they have a bearing upon taxation. I suppose
4 one can never clearly say that social aspects do not
5 bear upon taxation but I think we must essentially keep
6 our minds on this particular aspect of our job. The
7 Terms of Reference charge us with endeavouring to
8 distribute the burden of taxation fairly upon citizens
9 and we must of course look to that. There are many
10 ways in which taxation can be placed upon Canadian
11 citizens and we must have regard to all of those
12 different ways.

13 We must certainly examine the cooperative
14 enterprise in the same way we examine other enterprises
15 to see whether it in our opinion is being fairly
16 charged, being charged too much or too little. It
17 appeared to me that there were circumstances in this
18 particular group of submissions in respect of which
19 we will need the assistance of our counsel and legal
20 advisor, Mr. Stewart, and I have asked Mr. Stewart to
21 lead questions. This does not mean that questions will
22 not be directed by the Commissioners themselves and I
23 expect that they will be. I certainly intend to ask
24 questions myself.

25 Before asking you to introduce your delegation,
26 Mr. Staples, we do have a list of the names of the
27 gentlemen before us and I do not think we need to deal
28 with this to any extent, but I would introduce you to
29 the Commissioners. We are all up here and our names
30 appear before us.



1 Before proceeding to questioning you will
2 probably have some things you will wish to say to us,
3 Mr. Staples and we will be very pleased to hear from
4 you. You may stand or sit as you please.

5
6 R.S. STAPLES, President of the
7 Cooperative Union of Canada
(Ottawa).

8 MR. STAPLES: Maybe I will try to stand at
9 least in the beginning.

10 I appreciate very much, Mr. Chairman, the
11 opportunity of appearing before you as the leader of
12 this large delegation. My name is Ralph Staples and I
13 am president of the Cooperative Union of Canada.

14 It is not our intention at all to try to
15 summarize even in the briefest form the many submissions
16 we have made, but with your concurrence, sir, I would
17 like to say a word about the nature of our delegation.

18 I should like to describe how we hope to
19 proceed. This may be something of a hope and I would
20 like to introduce the members of the delegation.

21 Mr. Legere, on my right who is President of
22 our Le Conseil Canadien de la Cooperation and he will
23 introduce the members of the French speaking organization
24 here.

25 As you suggest, sir, cooperatives have indeed
26 been seized upon by the people all around the globe and
27 Canada is no exception to that, from Gries Fiord way up
28 north to Leamington, St. Johns to perhaps the Queen
29 Charlotte Islands in the Pacific. Groups of people
30 have seized upon cooperatives here to solve the problem



1 of how best to satisfy their hopes. We have tried to
2 organize this delegation in such a way that it
3 demonstrates this very well.

4 The cooperative movement is dispersed, it is
5 permissive and it is democratic. There is no one
6 person who could speak for it in its entirety so I am
7 surrounded here by a group of people, sir, the best
8 people we could find in the cooperative movement, and
9 we are prepared to discuss this movement in all its
10 aspects and in all its rich diversity, and we believe
11 in this way we can present a more complete view.

12 I should say, I think, and I believe this
13 appears in our brief at one point, that in a movement
14 like ours it would be very difficult to contend that
15 we are unanimous in every last little point in all our
16 hundreds of thousands of members across the country.
17 This would not happen, of course, but we do represent
18 a very large body of opinion.

19 The C.U.C., my organization, and the C.C.C.,
20 Mr. Legere's organization together represent our
21 membership at all its levels and phases of community
22 cooperatives in this country -- not all of them but
23 almost all of them. We have gone through the long
24 process, stretching over a year and more, of developing
25 a policy for the preparation of what we have laid
26 before you, and I do not intend to go into the details
27 of that unless you wish me to.

28 Some organizations in the cooperative movement;
29 some of our cooperatives are going further into the
30 subject of organization and the problems that you face,



1 sir, and your Commission. Then we as a group, that is
2 to say the Cooperative Union of Canada and the C.C.C.,
3 can confine ourselves largely to the questions that
4 bear upon income taxation and other taxation on the
5 cooperatives or members of the cooperatives.

6 As you suggest in your references, it may be
7 a little difficult to draw that lines sometimes but that
8 is our intention. The Cooperative Wheat Producers brief
9 has sections in it dealing with subjects which I might
10 describe as more general. I am not sure that is a fair
11 description, but I understand it will be desirable from
12 our standpoint if sections like that could be
13 considered on another occasion, perhaps when the Canadian
14 Federation of Agriculture appears before you some weeks
15 from now.

16 We will of course, proceed as you wish us to,
17 but it has been our thought that the main questioning
18 on t he various subject areas which might come before us
19 should be directed through me as leader of the delegation.
20 I might of something to say in reply to your questions
21 and some of the experts here in our organization may
22 have more to say, and we would like to refer some of
23 your questions on occasions to some of those people
24 who are at my back. We would like to see that all
25 possible information is laid before and we will do our
26 best to do this without repetition. You may have to
27 help us in this regard at times. In some cases, of
28 course, we cannot foresee the direction things will
29 take and more than one answer to a question may be
30 required because the practice or experience in that



1 particular area may be different from one cooperative
2 to another. However, I have in mind that we cooperative
3 people are great speech makers and we will have to
4 discipline ourselves. We intend to try to err on the
5 side of brevity, and I will leave it to you, Mr.
6 Commissioners and Mr. Stewart to draw any additional
7 information from us that you wish, so to speak.

8 I cannot think of anything more I wanted to
9 say now. Perhaps I could pick up the list, which I
10 think everyone has, and I would ask my friends in the
11 delegation as I name them to stand and perhaps stay
12 standing. I will not refer to the C.C.C., Le Conseil
13 Canadien de la Cooperation as Mr. Legere will do that.

14 I have introduced myself. Behind me is A.F.
15 Laidlaw, National Secretary of the Cooperative Union,
16 D.G. Blair, legal counsel, H.F. Simon, financial
17 advisor. From the Canadian Cooperative Wheat
18 Producers we have Mr. Charles W. Gibbings, President
19 of the Saskatchewan Wheat Pool, Mr. G.L. Harrold,
20 President of the Alberta Wheat Pool, W.J. Parker, President
21 of the Manitoba Pool Elevators, W. McDonell, comptroller,
22 Manitoba Pool Elevators, E.J. Medhurst, treasurer of the
23 Saskatchewan Wheat Pool and R.H.D. Phillips, Research
24 Director of the Saskatchewan Wheat Pool.

25 For the Fraser Valley Milk Producers (Vancouver),
26 we have Mr. J.C. Brannick, President and Mr. R.J.
27 McMaster, legal counsel.

28 For the Prince Rupert Fishermen's Cooperative
29 (Prince Rupert) we have Mr. K.F. Harding, general
30 manager and Mr. McMaster is also legal counsel for the



1 Prince Rupert Fishermen's Cooperative.

2 For the Maritimes Cooperative Counsel,
3 representing the cooperatives in the Maritimes we have
4 Mr. W.H. McEwen, secretary from Moncton.

5 For the United Maritime Fishermen (Halifax),
6 the central organization representing many fishermen's
7 cooperatives, we have Mr. J.H. MacKichan.

8 For the St. Francis Xavier University
9 (Antigonish, Nova Scotia) we have Mr. R.J. Chiasson,
10 and for the Federated Cooperatives Limited (Saskatoon)
11 we have Mr. L.L. Lloyd, President, Mr. H.L. Fowler,
12 Board member and President of the Interprovincial
13 Cooperatives) and Mr.D.E. Stewart, general manager.

14 Thank you very much sir.

15 THE COMMISSIONER: Thank you Mr. Staples.

16 I might say that I am very much impressed by the
17 representation here from coast to coast and by the fact
18 that you have all come to attend.

19 I think you said Mr. Legere is going to
20 introduce his associates. I regret that we have not
21 been able at short notice to provide translation
22 service but we have asked the translator on our staff,
23 Mr. Audcent to attend, so that anyone who would like
24 to address us in French may do so and we will have Mr.
25 Audcent make the translation immediately.

26
27 MR. M. LEGERE, President of Le Conseil
Canadien de la Cooperation

28 MR. LEGERE: Monsieur le Président, Madame et
29 Messieurs les Commissaires.

30 Nous, du Conseil Canadien de la Coopération



1 qui representons les coöperateurs de langue française
2 du Canada, sommes particulièrement heureux de nous joindre
3 à nos confrères de langue anglaise pour dialoguer avec
4 les membres de votre Commission sur les problèmes
5 complexes de la taxation.

6 Notre organisation desire apporter son humble
7 contribution à l'étude qui vous poursuivez en ce moment
8 et que vous poursuivez en ce moment et qui, selon
9 notre humble avis, revêt une importance extraordinaire.

10 C'est pourquoi, avec nos confrères de la
11 Cooperative Union of Canada, nous desirons vous faire
12 connaître le fruit de nos recherches et de nos
13 observations sur des problèmes dont nous sommes des
14 plus familiers.

15 Nous croyons sincèrement que depuis le
16 dernier quart de siècle que le mouvement coopératif a
17 apporté une contribution assez importante au
18 développement de notre pays pour que l'on se penche sur le
19 problème de la taxation en autant que notre mouvement
20 est concerné.

21 Alors, notre but en soumettant ces memoires
22 qui représentent la véritable pensée du coöérateur
23 canadien est tout simplement pour rappeler que notre
24 mouvement a des distinctions fondamentales quant à sa
25 fin propre qui est toujours basée sur le motif de
26 l'entraide et du service et non de profit à réaliser.

27 Nous croyons sincèrement que pour porter un
28 jugement équitable sur le mouvement coopératif qu'il
29 faut constamment tenir compte de ces facteurs
30 distinctifs.



1 Dans le climat actuel, nous desirons
2 également signaler le magnifique esprit de fraternité qui
3 anime les coopérateurs canadiens et qui fait de nos
4 institutions de puissants facteurs d'unité nationale.

5 D'ailleurs, nous savons très bien que tous
6 les membres de votre Commission sont déjà assez
7 familiers avec notre mouvement pour y porter un
8 jugement basé sur des faits réels découlant de la nature
9 particulière de notre mouvement.

10 En terminant ces quelques remarques, je desire
11 vous exprimer, Madame et Messieurs, notre vive
12 reconnaissance pour la bienveillance que vous avez
13 manifestée à notre égard et vous dire toute notre
14 admiration pour la contribution que vous apporterez,
15 sans doute, à notre pays en vous penchant sur un problème
16 aussi vitale pour notre nation que celui de la taxation.

17 Permettez-moi maintenant de vous présenter les
18 membres de notre délégation:

19	MM. Francois Jobin	Avocat-conseil
20	Paul Emile Charron	President du CCQ
21	Louis-Joseph Marcotte	Secrétaire de CCQ
22	Raymond Houde	Aviseur, C.A.
23	Romeo Martin	Fédérée de Quebec
24	Louis-Philippe Paulin	Fédérée de Quebec.

25

26 (See appendix for translation of above).

27

28 MR. LEGERE: If you wish, Mr. Chairman, I
29 could give you a short review of what I have to say.

30

THE CHAIRMAN: No, you carry straight on. We



1 can follow you when you speak slowly and you are speaking
2 very clearly. I think we can all follow you.

3 MR. LEGERE: Thank you, sir.

4 THE CHAIRMAN: We would like to get your
5 remarks into the record. I do not think the reporters
6 were able to take down your words as you went along
7 so perhaps we can have your notes and we can put them
8 in the record.

9 Mr. Staples, you have to some extent caught
10 us unawares by your numbers and if this room is
11 adequate it is only just adequate. I regret that we
12 did not anticipate the numbers of attending delegates
13 more accurately than we did. We sit in here quite
14 closely but perhaps we will be all right if we do not
15 receive a further invasion. This is the first sellout
16 that we have had so far.

17 Now in proceeding with these hearings, Mr.
18 Staples, do we need to arrange a system of references?
19 Have you and Mr. Blair worked out anything so that we
20 will be able to follow through from one submission to
21 the other or is it going to be fairly easy to do this?

22 MR. STEWART: Mr. Chairman, I do not think
23 it will be very difficult. Mr. Blair and I have not
24 really discussed this up until now but one point of
25 terminology which I would think would be acceptable
26 to him would be if we refer to this brief of the C.U.C.
27 and the C.C.C. which is Exhibit 198 as the joint brief
28 as it is a joint brief of the two associations. Apart
29 from that I think the briefs can probably be referred to
30 simply by the name of the participant, or some

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one for you from your office. I think we can get it for you.
very quickly. I think we can get it for you.
The Chairman is not sure. He is not sure.
remains in the room. He is not sure.
some time. He is not sure.
to be sure we can have some more. He is not sure.
in the room.
Mr. Staphis, you have to some extent thought
as much as by your members and in this room.
referred to in only a few places. I think it is
not so important as the members of the committee.
more seriously than we do. We are in more
closely and perhaps we will be able to do so.
referred to in the room. I think it is
that we have had so far.
now to proceed with the results.
Staphis, is it not the case that a great deal of
Have you and Mr. Staphis worked out anything?
will be able to follow through from the other side.
the other side. I think we will be able to do so.
Mr. Staphis, I do not think
is still no very difficult. Mr. Staphis and I have not
really discussed this in detail now. But the point of
reminiscently which I would think would be important
to him would be if we refer to this matter of the G.I.
and the G.I.C. which is a matter of the G.I.
as it is a matter of the G.I. and the G.I.C.
from which I think the G.I. and the G.I.C. are
simply in the same line of thought.



1 abbreviation of that particular name.

2 THE CHAIRMAN: I think that would be quite
3 all right.

4 Mr. Stewart, I think you may proceed.

5 MR. STEWART: Thank you, Mr. Chairman.

6 THE CHAIRMAN: Mr. Staples, are you ready?

7 MR. STAPLES: Yes, Mr. Chairman.

8 MR. STEWART: Mr. Chairman, gentlemen, my
9 first line of questioning is going to be directed towards
10 certain aspects of the organization of the cooperative
11 movement in Canada and the manner in which the
12 cooperatives carry on their associations. I would like
13 to start first with the general structure of a
14 cooperative. One or two of my initial questions may
15 have something of a legal flavour and it may be that Mr.
16 Blair will be the appropriate person to deal with them,
17 or perhaps Mr. Jobin.

18 Now, I take it that the activity of cooperatives
19 in Canada is carried on essentially by corporations?

20 MR. BLAIR: That is correct.

21 MR. STEWART: And these corporations have the
22 normal characteristics of Canadian corporations, and I
23 have in mind in particular one or two things. First of
24 all, I take it, Mr. Blair, that these corporations have
25 separate legal personality?

26 MR. BLAIR: That is correct.

27 MR. JOBIN: That is right.

28 MR. STEWART: They are legal personalities
29 which are distinct ---

30 MR. McMASTER: Mr. Chairman, I wonder if I may

Mr. Stewart: Yes, I think so, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: Mr. Stewart, are you ready?

MR. STEWART: Yes, I think so, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.

THE CHAIRMAN: I think that may be possible.

MR. STEWART: That is all, thank you.



1 raise a question? I do not want to disagree with my
2 friend Mr. Blair, but there are lines of associations
3 that deal with cooperative pipe organizations, while the
4 instrumentality of the organization is the means by
5 which the members express mutual objectives. There is
6 the distinction that you can look behind the corporations
7 in dealing with mutual cooperative organizations in a
8 manner which is not generally regarded as being
9 applicable to corporations generally. This is a
10 distinction that seems to me as fundamental if we look
11 at these things from a legal point of view in any event.
12 There is a great awareness of the members of the
13 corporation rather than the corporate entity and the
14 right to look behind the corporate entity.

15 MR. STEWART: I appreciate that additional
16 information. I think that is one of the points about
17 corporations that we will perhaps come to later on when
18 we consider such questions as patronage dividends.

19 THE CHAIRMAN: You are Mr. McMaster, I think?

20 MR. McMASTER: Yes. Thank you.

21 MR. STEWART: However, I take it that the
22 members of these cooperatives have one kind of benefit
23 of membership in corporations, namely that they have
24 limited liability, by which I mean in particular that
25 they are not personally responsible for the contracts
26 of the cooperatives and that they have no personal
27 liability for the wages of employess of the cooperatives.
28 Would you care to comment on that, Mr. Blair?

29 MR. BLAIR: That is true.

30 MR. STEWART: Well, then, when we come to the

raise a question. I do not want to mix this with

that deal with cooperative type organizations, which is
instrumentality of the organization is not the same as

which the members are not really objects, which is

the distinction that you are looking behind the corporation

in dealing with mutual cooperative organizations in a

company which is not generally recognized as being

applicable to cooperative organizations, which is a

distinction that seems to be an important one in the

as these things from a legal point of view in the event

There is a great difference of the nature of the

corporation rather than the nature of the entity and the

right to look behind the corporate entity.

MR. STEWART: I agree with you and add that

distinction. I think that is one of the main points

corporations that we will continue to have to look on when

we consider such questions as public utility law.

THE CHAIRMAN: You are Mr. Robinson, I think.

MR. ROBINSON: Yes, that is right.

MR. STEWART: However, I think it is that the

members of these corporations have the right to control

of membership in corporations, namely that they have

limited liability, by which I mean the personal assets

they are not so really responsible for the corporation

of the cooperative and this thing as we are talking

liability for the way of management of the cooperative

which you came to consider in the, in fact

Mr. Stewart, I think that is right.

MR. STEWART: Yes, that is what we are talking



1 capital structure of the cooperatives, I appreciate
2 that there is probably considerable diversity. Some
3 of these corporations may and some may not have share
4 capital, is that so?

5 MR. BLAIR: That is correct.

6 MR. STEWART: But they all have members whether
7 or not the members actually own what may be called
8 shares in the corporation?

9 MR. BLAIR: That is correct.

10 MR. STEWART: And the owners of the cooperative
11 are the members whether or not they are actually share-
12 holders?

13 MR. BLAIR: That is correct.

14 MR. STEWART: Now, I would like to refer to
15 the number of features, which, as I understand it,
16 distinguishes cooperatives from other corporations, and
17 you gentlemen will appreciate that my knowledge of the
18 cooperative movement is very limited and to the extent
19 that my understanding is incorrect I hope you will put
20 me on the right track.

21 One point that I understand is that membership
22 in cooperative corporations is regarded as open in the
23 sense, at any rate, that anyone who wishes to become a
24 patron or a member will be permitted to become a member
25 on the payment of what is normally a nominal fee.
26 Would you comment on that?

27 MR. STAPLES: This would be the general rule
28 of principle, Mr. Stewart. In some cases the organization
29 by its very nature, the nature of the services offered
30 does in effect limit membership, though not through

logical structure of the organization, I appear to
that there is possibly some kind of connection
of these organizations may not be very far from
existing, in fact.

MR. STANLEY: But in the case of the
or not the members - actually not in any way
courses in the organization.

MR. WALKER: That is correct.
MR. STANLEY: And the members of the organization
are the members who are not only not actively
working.

MR. STANLEY: That is correct.
MR. STANLEY: Now, I would like to know
the number of members of the organization, and
classified as cooperatives from other organizations.

MR. STANLEY: Now, I would like to know
cooperative members of the organization, and
that my understanding is incorrect. I hope you will
me on the right track.

MR. STANLEY: I understand that the
in cooperative organizations is reported as being
correct, and that the members of the organization
part of the members will be reported as being

in the category of which is reported as being
would not comment on that.
MR. STANLEY: This would be the same as
of the organization, and I am sure that you will
of the organization, and I am sure that you will

does in fact of the organization, and I am sure that you will



1 policy. You understand that there is no point in someone
2 joining a certain cooperative if that cooperative
3 cannot serve him, so in this sense membership is open.

4 MR. STEWART: Well, one example of that I take
5 it would be if you had a service cooperative in Red Deer,
6 Alberta, it is unlikely that someone in Halifax would
7 want to be a member?

8 MR. STAPLES: Yes, I think it would be quite
9 unlikely.

10 MR. McMASTER: May I suggest, Mr. Chairman,
11 that there are certain qualifications to that general
12 statement which must realistically be regarded. One is
13 that in order for a cooperative to provide service to
14 its members it must employ a certain amount of equipment
15 and plant and so on. Now, that provides a limiting
16 factor unless you are going to expand and provide more
17 plant and equipment. In other words, there may be a
18 limiting factor from a practical point of view. You
19 cannot serve one thousand people with a plant that is
20 equipped to serve one hundred people.

21 One other thing was that Mr. Stewart
22 indicated that you became a member on payment of a
23 nominal fee. I think this statement ought to be
24 clarified by saying that it is upon the assumption of a
25 contractual relationship with other people to assume
26 responsibilities for providing the plant and equipment.
27 This will vary according to the kind of enterprise in
28 which the cooperative is operating. If it is an
29 enterprise that does not require much plant and equipment
30 it may well be a nominal amount. If on the other hand

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1 if it is an enterprise which to provide it, it requires
2 a substantial investment, it may be a nominal amount
3 initially but ultimately the member is expected to
4 assume more contribution to it contractually in relation
5 to the use which he is going to make of that service.

6 MR. STEWART: Do I gather from what Mr.
7 McMaster has said that in some cooperatives a person
8 who becomes a member commits himself not only to making
9 an initial contribution which might be in the sum of
10 say \$1.00, but he legally commits himself to contributing
11 or investing an additional amount over a period of
12 time?

13 MR. STAPLES: This could be, but the extent
14 of his commitment would be known to him, of course.

15 MR. STEWART: What commitment is to make
16 this additional investment in the cooperative which the
17 cooperative will then utilize for its own purposes?

18 MR. McMASTER: For the purposes of its members.

19 MR. STEWART: Yes.

20 MR. STAPLES: Yes.

21 THE CHAIRMAN: Mr. Stewart, are you clear on
22 this commitment now? I am not.

23 MR. STEWART: I would like to pursue this just
24 a little, Mr. Chairman. How extensive in the movement
25 is an arrangement of this character? What type of
26 cooperative is this arrangement found in and how
27 frequently is it found?

28 MR. STAPLES: Would you like us to draw on
29 the experience behind me for one specific example of
30 a large cooperative which would be helpful, I think?



1 MR. STEWART: Yes.

2 MR. STAPLES: I think if Mr. Brannick, President
3 of the Fraser Valley Milk Producers would describe briefly
4 how they finance their operation in terms of member
5 commitment it might be helpful.

6 MR. J.C. BRANNICK, President of the Fraser
7 Valley Milk Producers.

8 MR. BRANNICK: Mr. Chairman, we are a
9 producer cooperative. We take in all members at a
10 nominal fee of \$10.00 for a nominal share. The idea
11 is that the producing members should own the organization
12 over a period of years. In their contract, which is
13 signed, they commit themselves to a revolving fund
14 set from year to year at a percentage of their gross
15 income. This is financed in the form of a revolving
16 fund which in due time they will get back. Does that
17 make sense?

18 MR. STEWART: Yes, I understand that. Thank
19 you very much. May I ask in respect of the Fraser Valley
20 Milk Producers if this is what termed as an agency
21 coop?

22 MR. BRANNICK: No. We take all our milk on
23 consignment and we process it and sell it directly to
24 the trade, as near as we can, collect the moment,
25 deduct the cost and give the balance back to the
26 producer.

27 MR. STAPLES: I think the term agency coop, Mr.
28 Stewart, is one we use rather loosely and I think the
29 answer to your question in the sense you meant it is
30 in the affirmative. This is an agency coop. It is an



1 agency coop that takes the members product, processes it,
2 sells it for him and gives him the money for the end
3 product less the cost of the operation.

4 MR. STEWART: Well, now, are these contractual
5 arrangements of the sort that have been described, and
6 would these be agency coops, or does it go beyond that?

7 MR. STAPLES: Well, when you say this kind of
8 agreement I am not sure how satisfied you are. I think
9 I should refer that question to Mr. Blair.

10 MR. STEWART: May I just qualify my question
11 because this may be in some way my misunderstanding
12 the movement. I quite appreciate that there are
13 cooperatives which start off and when they take in a
14 new member, the investment of the new member over a
15 period of years will increase. By the same token, during
16 that period there will be one or more other members
17 who in effect retire their investment. What I am
18 interested in is the extent to which the new member
19 when he comes in legally commits himself to putting up
20 any particular sum of money or any proportion of the
21 income, or payments that he will be deriving from the
22 cooperative, to provide it with capital.

23 MR. BLAIR: Mr. Stewart, I think the answer
24 to your question would have to take the following form.
25 There is no common pattern, but I think what Mr.
26 McMaster was trying to say was that the relationship
27 between the member of the cooperative is not essentially
28 that of an investor buying a share or taking out
29 membership. What he was trying to suggest and what I
30 believe is fundamental is that this is an agreement

...by each party to the contract, ...
...it for him and gives him the money for the ...
...the cost of the operation.

MR. STANLEY: Well, now, the ...
...of the ... have been ...
...be ... or does it go beyond ...
MR. STANLEY: Well, when you say this ...

... I am not sure you satisfied you are, I think ...
I should refer this question to Mr. Blair.

MR. STANLEY: May I just qualify my question ...
... may be in some way ...
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... which ... and when they ...
... the investment of the ... over a ...
... of years will increase. By the same token, ...
... there will be one or more other members ...
... their investment. And I am ...

... to which the new member ...
... is ...
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... he will be deriving from the ...
... to provide it with capital.

MR. BLAIR: Mr. Stanley, I think the answer ...
... the following ...

... I think that ...
... the relationship ...
... the member of the cooperative is not ...
... of an investor buying a share or ...

... What he was trying to suggest was that I ...
... this is an ...



1 between a large number of people to accomplish a certain
2 job that they wish done. Now, you ask what is the
3 form that the agreement take and the form of the
4 agreement to which the member subscribes when he joins
5 a cooperative. This will depend upon the nature of the
6 cooperative. It will depend upon the province where
7 that cooperative is carried on because these cooperatives
8 have different traditions in different provinces.
9 There is the common provision in all the cooperative
10 legislation to the effect that the by-laws of the
11 cooperative, once properly enacted and approved by the
12 appropriate provincial authority have the effect of
13 constituting a contract between the member of the
14 cooperative and the cooperative.

15 MR. STEWART: Yes, I appreciate that. Well,
16 then, are you really saying more than this, that under
17 the constitution of a particular cooperative which, I
18 suppose, is a combination of the applicable provincial
19 statutes and the by-laws of the cooperative the
20 corporation is established to provide that some
21 proportion of patronage dividends can be withheld from
22 a member for a particular period?

23 MR. BLAIR: That is correct.

24 MR. STEWART: So that when Mr. McMaster is
25 talking about a contractual arrangement or commitment,
26 is he talking about more than that type of thing, and
27 when I say "that type of thing" I mean the mechanics
28 within the constitution of the cooperative for with-
29 holding something that might otherwise be distributed?

30 MR. BLAIR: I do not want to speak as a



1 between a large number of people as well as individuals.
2 too that they wish done, that, now only this is the
3 form of the agreement between the form of the
4 agreement to which the member entered when he joined
5 cooperative. This will depend upon the nature of
6 cooperative. It will depend upon the business that
7 that cooperative is carried on business in an organization
8 that different traditions in different countries.
9 There is the common provision in all the cooperative
10 legislation to the effect that the business of the
11 cooperative, once properly entered and approved by the
12 appropriate provincial authority have the effect of
13 constituting a contract between the members of the
14 cooperative and the cooperative.

15 then, are you really saying more than this, that there
16 the constitution of a provincial or national authority
17 suppose, is a condition of the agreement and that
18 statutes and the business of the cooperative and
19 legislation is established to provide that a
20 recognition of provincial divisions can be made in the
21 cooperation for a national business.

22 MR. CHAIRMAN: That is correct.
23 MR. CHAIRMAN: So that in the case of the
24 thing about a cooperative organization or something
25 in the United States more than that type of thing, and
26 when I say that type of thing, I mean the type of thing
27 within the constitution of the cooperative law, is
28 holding some kind of right of law in a cooperative.



1 lawyer here too much because these gentlemen here know
2 so much more than I possibly do about the operation of
3 cooperatives, but perhaps if I express this it could
4 be commented upon. You speak about withholding
5 patronage refunds which is simply the end product of
6 this total contractual relationship between the members
7 and the cooperative. This is one aspect of it, but
8 the basic relationship, whether you call it a contract,
9 an arrangement or an agreement, or whatever, is that
10 these people have got together to provide some type
11 of service for themselves as a matter of convenience
12 which is recognized by provincial law, enabling them
13 to make this contractual arrangement, in some cases, in
14 the form of by-laws.

15 MR. STEWART: Yes, but just to try to pin this
16 down a little further, Mr. Blair and admitting that at
17 the moment I am being legal and technical, and I
18 appreciate that in practice these legalities and
19 technicalities may be blurred to some extent, being
20 legal and technical, if I applied for membership and
21 I am a resident in the Fraser valley producing milk, or
22 if I want to become a milk producer and I apply for
23 membership in the Fraser Valley Milk Producers
24 Association, granted if I am wise I will look at the
25 by-laws before I undertake to become a member, but
26 apart from the by-laws, and the fact that I am asked
27 to pay up my \$10.00, do I find any piece of paper or
28 enter into any other type of contract apart from that
29 which may be evidenced by the by-laws which commits me
30 to pay any other particular sum of money at any particular



1 time?

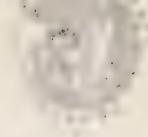
2 MR. BRANNICK: Mr. Chairman, according to
3 our contract you pay your percentage of your gross.
4 This changes from time to time, and for that percentage
5 of the gross you receive an interest certainly for that
6 which is redeemable in a number of years or in our
7 revolving fund in the future. That money is returned
8 to you in due time. The idea of that is that the
9 producing members are the owners, as near as possible, of
10 their own show.

11 MR. STAPLES: Mr. Stewart, I think that is
12 really the principle that is involved here. On this
13 large question which you have raised I should like to
14 ask one or two of the people behind me to comment
15 further on actually how it is done.

16 The principle is that the cooperative desires
17 and succeeds in most cases to have its equity financing
18 provided by the members who are currently using it.
19 This involves one problem because membership shifts.
20 Members go away, they die, they retire and they
21 disappear in many ways as members. Some way has to be
22 found to shift the financing burden from one group to
23 another over the generations. This requires a kind of
24 agreement to which you have referred. This is one
25 of the ways it expresses itself.

26 I should like to ask first of all Mr. Gibbings,
27 President of the Saskatchewan Wheat Pool, to comment
28 on this question of a member's committment which we
29 are discussing.

30 MR. CHARLES W. GIBBINGS, President of the
Saskatchewan Wheat Pool



MR. THE PRESIDENT: I am glad to hear that.

Our contract for the year 1900-1901 is now being

This contract from the time, and for the year 1901-1902

of the gross you receive on the contract is now being

which is necessary in order to make the contract

revenue fund in the future. The money is now being

to pay for the same. The idea of that is to

proceeding matters and the contract, as near as possible,

which are shown.

MR. THE PRESIDENT: I think that is

noting the principle that the contract is now being

large question which you have raised I should like to

and one or two of the people taking in the contract

the same as usually now in the case.

The principle is that the contract is now being

and success in most cases to have the same principle

provided for the contract which we are now making

this involves one question which is now being

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of the same is expressed in the

I should like to ask you to ask the

President of the Senate, I think, to

on this question of a member's contract, which

are discussing



1 MR. GIBBINGS: Perhaps, Mr. Chairman, in order
2 to adequately do that I will have to refer to the origin
3 of the organization and the type of legal contract that
4 was entered into at that time. During the period which
5 we call the contract pooling period; at that particular
6 point the shareholder finds a contract in which he
7 authorizes the company to deduct from the sale of his
8 product an amount of two cents per bushel which it
9 uses for the purpose of acquiring facilities. In
10 addition to that the contract indicates that the company
11 will deduct one per cent of the gross sales value of
12 his product called a commercial reserve and use it for
13 working capital of the organization. This situation
14 pertained to the end of the contract pooling period,
15 1929-30. During that period there was raised a sum
16 in the order of \$18,750,000.00 which was credited to
17 the individual members in the operation and which he
18 had paid in. In other words it was related to the
19 volume of grain that he delivered during that period.
20 No further capital was raised until subsequent to the
21 Second World War at which time another form of
22 acquisition of capital was utilized. I should say
23 that in so far as share capital is concerned one
24 individual member owns one share and one share only.
25 This is valued at \$1.00. The balance of his equity
26 in the organization is in the form of contributed capital
27 and is set up as a credit for the individual member.
28 As I say, additional capital was required as a result
29 of retaining the portion of the patronage dividends
30 in the form of a loan. This was agreed to by right of



1 the shareholder at the time of our annual meeting.
2 These funds are kept in the hands of the active members
3 through a system of revolving deductions. We have
4 established certain categories, namely four. The first
5 one being in the event that a member dies his equity is
6 paid out to the estate. If he becomes seventy years of
7 age or over, or sixty-five if he is a patron, he is
8 eligible to get his equity out in cash. If he becomes
9 totally disabled he gets his equity out in cash, or if
10 he ceases to be a farmer; in other words, no longer has
11 a need for the facilities, he gets his equity out.
12 The money to provide this is voted at the annual meeting,
13 and these members are paid out in cash the amount which
14 is credited to the active member on the basis of their
15 activities during that year.

16 MR. STEWART: I think that makes it pretty
17 clear. Perhaps I could state my understanding so that
18 you can correct me if I am wrong. There are really two
19 types of arrangement involved here; two basic types.
20 One is that a member may in a particular case commit
21 himself in effect to advancing monies over and above
22 his membership fee, those moneys being related to the
23 proceeds of the sale of his products. That is one
24 type of arrangement which applies apparently in the
25 Fraser Valley and no doubt elsewhere. The other type
26 of arrangement is that which is, I suppose, more recent
27 in origin in Canada at any rate, or has become more
28 popular in Canada, and that is when you are dealing
29 with patronage refunds you add to your capital or to
30 your working capital by paying only part of the



1 patronage refund in cash and by deferring payment of the
2 balance by virtue of the membership acquiescing in the
3 deferment of part of that payment.

4 MR. STAPLES: In respect of income taxes it is
5 paid in both cases, and the view would be that he
6 recognizes the fact that portion sits there.

7 Mr. Stewart, this discussion from our standpoint
8 is a little too much on the purchasing end and I would
9 like to ask Mr. Fowler, representing the purchasing end
10 of the cooperatives, to say a word or two about this
11 question.

12 MR. STEWART: I would be delighted to hear from
13 Mr. Fowler, of course, but are there two types of payments
14 such as I have just mentioned? Mr. Blair is shaking
15 his head.

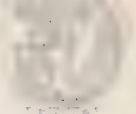
16 MR. BLAIR: I think the only point on which I
17 tend to disagree with your summary is the deductibility
18 of patronage refunds for the purpose of providing
19 capital for the cooperative, which is not a thing of
20 recent origin. This has been going on, as I
21 understand it, from the very beginning because this is
22 a traditional method by which the cooperatives have
23 collected capital.

24 MR. STEWART: I see, so both methods have been
25 going on for some time?

26 MR. BLAIR: Yes.

27 MR. STEWART: But the two basic methods that
28 we have heard about so far, subject to the qualification
29 that you just made, are as I have described them?

30 MR. BLAIR: The initial investment and
deductibility, that is correct.



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1 MR. JOBIN: May I add that in some cases like
2 in Quebec, the deductibility will not come from a
3 patronage dividend, but is based on the value of the fish
4 market. For instance, if you have a small local
5 cooperative, the subscription of shares should be
6 \$9500.00, so they will make an agreement with the member
7 whereby they will deduct five per cent of the fish
8 market to cooperatives to fulfill the contractual
9 subscription of the shares.

10 MR. STEWART: When he starts off he commits
11 himself to a particular amount?

12 MR. JOBIN: Definitely.

13 MR. LAIDLAW: There is an underlying principle
14 of financing cooperatives that I think should be brought
15 out at this point, and that is referred to by some
16 writers as the principle of proportionality. Now,
17 everybody is familiar with the democratic principle of
18 one member with one vote in the cooperative, but all
19 members are equal in setting up policy and in the control,
20 but we have to devise some other principle when it comes
21 to financing, and in Europe and throughout many
22 countries they use this term of "proportionality", which
23 means that the members should contribute to the
24 financing of cooperatives in proportion to his use of the
25 services, and this principle is followed through in
26 many of the Canadian cooperatives, as described by Mr.
27 Gibbings, for example, by deducting so much per bushel
28 you automatically arrive at the situation that the
29 member that uses the cooperative most contributes the
30 most capital, and so in the Fraser Valley the producer



1 with ten cows will put up only one-half as much as the
2 producer with twenty cows, and so on, and the principle
3 of proportionality comes into play again in the
4 distribution of the surplus.

5 So, we have these two underlying principles at
6 work all the time; equality of persons and the control
7 of the cooperative, but proportionality when it comes
8 to financing.

9 MR. STEWART: Thank you, Dr. Laidlaw. I think
10 at one point it was suggested that Mr. Fowler might
11 have something to add to this.

12 MR. FOWLER: As has been indicated, Mr. Chairman,
13 the one common is that in a man becoming a member of
14 a cooperative, he signs an application and he has to
15 comply with the by-laws. The by-laws vary from
16 cooperative to cooperative, but the general pattern you
17 will find in all of them is that he agrees, after
18 having paid the initial amount on his first charge,
19 and that he will assign his patronage refund in some
20 proportion to be applied on shares.

21 Now, I have here an application which I will
22 file, if it is required, and I will give you some of the
23 words. It says:

24 "The applicant hereby applies
25 for a number of shares in the capital
26 stock of your company, from which
27 payment can be made from the amount
28 of patronage refunds available to
29 the applicant arising out of the
30 business of the company for the

Each ten cars will pay up to \$1000.00

and the other ten cars will pay up to \$1000.00

and the other ten cars will pay up to \$1000.00

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1 fiscal year."

2 In other words, if he complies with the by-laws
3 he applies for shares in the amount of the patronage.

4 This is the pattern that is found in quite a number of
5 the retail cooperatives, particularly in the west and
6 probably you will find it generally elsewhere.

7 MR. STEWART: That, in effect, Mr. Fowler,
8 permits the cooperative to transfer or appropriate, if
9 it chooses to, the whole of his patronage refund to the
10 share capital account, or however you describe the
11 particular account, is that correct?

12 MR. FOWLER: Well, you see, it makes the
13 transfer; that is hardly describing it, it is simply
14 that he has applied for shares and has agreed to pay
15 for those shares from his patronage refund.

16 MR. STEWART: If, in a particular year the
17 cooperative determined that it would distribute 25 per
18 cent of the patronage refund in cash, and that it would
19 like to retain the balance, what in effect happens is
20 that it accepts that subscription or offer in respect
21 of 75 per cent.

22 MR. FOWLER: Yes, that is exactly right.

23 MR. STAPLES: Mr. Stewart, the cooperative
24 only comes to that decision on the basis of a decision
25 of the members at the annual meeting.

26 MR. STEWART: I appreciate that.

27 MR. STAPLES: And the surplus is, as it were,
28 presented to the members for distribution and they
29 decide how much is left in and how much is taken out.

30 MR. STEWART: Yes. This anticipates a question



1 I was going to ask later, but is this always done by
2 the members, or in some cases can that decision be made
3 by the Board of Directors?

4 MR. BLAIR: Well, Mr. Chairman, I think that
5 the traditional cooperative pattern is that it is
6 always done by the members. In some provinces,
7 notably Saskatchewan, from where I come, it is spelled
8 out in the legislation that this decision can only be
9 made by the members, and I believe that this is the
10 case in practically all provinces with the exception of
11 Ontario, where the cooperative legislation is part of
12 the Corporations Act. If I am not mistaken, here the
13 initial decision is made by the directors, but it is
14 traditionally referred to the shareholder members.

15 MR. STAPLES: In my experience, Mr. Stewart,
16 though, even though in some cases the directors might
17 have the authority to make this decision, I have never
18 known it to be made by the directors without being
19 referred to the members at an annual meeting, in
20 practice, for consideration and approval. I wonder if
21 the Province of Quebec has anything to say?

22 MR. JOBIN: We would like to say that with
23 one exception the Quebec Federated Cooperative, the new
24 Act we have, for instance, the new cooperative Act we
25 just added last year, Section 83, we say:

26 "At the annual meeting the
27 members of the Association, after
28 considering the recommendation of
29 the Board of Directors, and in
30 accordance with the operation of



1 the statement of the last fiscal
2 year, shall allocate..." etc.

3 This is the power of the Act.

4 THE CHAIRMAN: One moment before you move on,
5 Mr. Fowler replied to your question that the effect on
6 the individual member was by virtue of the by-laws or
7 the contract, that it should be resolved by the members
8 at large and it was permitted to, in fact, accept stock
9 for the entire amount of the dividend; that is acceptable.
10 Was it, in fact, the entire amount if such was
11 resolved?

12 MR. FOWLER: The entire amount is applied on
13 shares, and in most cases figures were given in our
14 brief on a percentage basis that it is paid out to him.

15 To illustrate the point, in the case of my
16 patronage refund last year, it was \$130.00 some, and on
17 the revolving principle I made a little money, I got
18 \$140.00 cash. All my savings -- that is what we call
19 them-- were retained and applied on share capital from
20 my pool or equity, and I got more this year than I
21 put out. I will get more as I go along.

22 MR. STEWART: Perhaps we could mark as an
23 exhibit this form of application for shares and
24 authorization re patronage refunds which Mr. Fowler
25 has handed me, and which is a Federated Cooperative
26 Form.

27 THE SECRETARY: This will be Exhibit 207.

28 ---EXHIBIT NO. 207: Form of application
29 for shares and authorization
30 re patronage refunds -
Federated Cooperative
form.



1 MR. STEWART: Well now, gentlemen, I am going
2 to come back a little later to this whole question of
3 the financing with cooperatives, but perhaps for the
4 moment we could move on to certain other features which,
5 as I understand it, distinguish cooperatives from other
6 corporations.

7 The next one I had in mind has already been
8 mentioned in passing, I think it was by Dr. Laidlaw,
9 and it is my understanding that in cooperative
10 associations or corporations, the principle of one vote
11 per member applies?

12 MR. STAPLES: Yes.

13 MR. STEWART: In other words, in an ordinary
14 corporation if you have one hundred common shares, the
15 chances are you have one hundred votes. If in one
16 of your corporations a person has more than one share,
17 as I think you can in the United Grain Growers, for
18 example, he still has only one vote per member?

19 MR. STAPLES: That is correct.

20 MR. STEWART: Is it also the case that where
21 a person has an investment in a cooperative, the rate
22 of return that he is permitted to make on that
23 investment is a limited rate of return?

24 MR. STAPLES: This certainly is the case in
25 most provinces; they are limited by statute.

26 MR. STEWART: When you say "in those provinces",
27 are there exceptions?

28 MR. STAPLES: Mr. Blair says he doesn't think
29 there are exceptions. We could get that. Perhaps some
30 people in the room know of exceptions. Are there any?



1 MR. FOWLER: I think those incorporating letters
2 patent from the Secretary states that there are none.
3 There are a few by letters patent.

4 MR. STEWART: Well then, even in those cases
5 would it be normal to limit, in fact, the rate of return
6 which is paid on investment?

7 MR. FOWLER: May I answer that? I am President
8 of one of those cooperatives, and we are not paying
9 anything, by decision of our members.

10 MR. STEWART: And if a return is paid on the
11 amount invested, granted the rate of return is limited,
12 but is there any prevailing rate at the moment? Mr.
13 Fowler has just said that in some cases there is no
14 return at all, but if there is one, what do you mean
15 by "limited rate of return"?

16 MR. STABLES: Well, the principle that most of
17 the cooperatives have in mind is that it should be just
18 compensation for the use of the money and that some
19 sort of a reasonable interest rate. This is not
20 regarded as a distribution of the year's results at all
21 and a large number, as you suggest, a large number of
22 the cooperatives, a growing number, pay no interest on
23 the share capital invested.

24 MR. STEWART: But would five per cent be a
25 maximum or eight?

26 MR. STAPLES: Well, this would take a bit of
27 a search, but that would be perhaps fairly typical.
28 It varies pretty widely.

29 MR. STEWART: Do you know of any case in which
30 more than five per cent was paid?



1 MR. JOBIN: Yes, in Quebec under the new Act.
2 The section says, "not to exceed 7 per cent".

3 MR. STEWART: I see. Do you know of any cases
4 -- it has just been stated that 7 per cent may be paid
5 in at least one jurisdiction on preferred shares, but
6 taking other shares, do you know of any case where as
7 much as 6 per cent is, in fact, paid?

8 MR. STAPLES: I don't know. Does anybody in
9 the room know where there is more than 6 per cent paid?

10 MR. LAIDLAW: What about the loan certificates?

11 MR. MacKICHAN: That is not the shares. I
12 know of no provincial legislation that would permit
13 more than 6 per cent, and most of the organizations
14 have less.

15 MR. STEWART: Thank you.

16 MR. McMASTER: Apparently British Columbia
17 required up to 6 per cent but, in fact, most cooperatives
18 do not pay interest in British Columbia on shares, and
19 if they do -- there are a few that might pay as high
20 as four, but I don't think there would be any higher.

21 MR. FOWLER: In Saskatchewan they are
22 beginning to round it up to five; most of them do not
23 pay that.

24 MR. STEWART: Thank you. Now then, I take
25 it that under some, if not all of the statutes,
26 cooperatives are required to set aside a proportion of
27 their earnings or a particular sum as reserves for
28 specified purposes?

29 MR. STAPLES: That is correct.

30 MR. STEWART: But when we get to the residual



1 earnings of a cooperative for a particular year, do I
2 understand that the rule is that those residual earnings
3 are to be distributed among the members on the basis of
4 current patronage?

5 MR. STAPLES: Yes, that would be right.

6 MR. STEWART: So that would it be fair to say
7 that the ultimate beneficiaries of the operations of a
8 cooperative for a particular year are the patrons for
9 that year in accordance with their patronage, whereas
10 in the case of an ordinary corporation the beneficiaries
11 are the shareholders in accordance with their share-
12 holdings?

13 MR. STAPLES: That seems correct to me, sir.

14 MR. STEWART: I see that Mr. Blair is nodding
15 his head, too.

16 MR. BLAIR: Up and down, Mr. Stewart!

17 MR. STAPLES: That means it must be correct.

18 MR. STEWART: Well now, then, in your
19 cooperatives I take it that you have annual meetings
20 of members for the election of directors?

21 MR. STAPLES: That is correct.

22 MR. STEWART: And it has already been suggested
23 that in the majority of cases, at any rate, at those
24 members' meetings the members also deal with the question
25 of the extent to which patronage refunds will be
26 distributed in cash, and the extent to which they will
27 not?

28 MR. STAPLES: This is correct. This is often
29 one of the most interesting questions at the meeting.

30 MR. STEWART: Normally, I suppose, the Board



1 of Directors would come forward with a recommendation on
2 that point?

3 MR. STAPLES: This would be common practice,
4 yes.

5 MR. STEWART: Well then, when the directors are
6 elected, they proceed to elect the officers of the
7 cooperative?

8 MR. STAPLES: That is correct -- I am sorry --
9 the practice would vary a little, Mr. Stewart, but I
10 should think in 90 per cent of the cases you have stated
11 it correctly, that is, the annual meeting elects the
12 directors; it is usually for a term of years, now, and
13 they may elect three directors for a three year term,
14 or something like this. Then, typically those directors,
15 they might number, say, nine, and they will meet after
16 the annual meeting and elect the president and the vice-
17 president. This would be typical. There may be the
18 odd organization that varies some from this, but this
19 is the general rule certainly.

20 MR. STEWART: Well then, the cases that follow
21 a different pattern, does the annual meeting sometimes
22 elect officers direct?

23 MR. STAPLES: This has been the case in the
24 past more than it is now. I can't think of one that I
25 know personally that does it this way. Does anyone in
26 the room know of a coop that elects their president
27 before the annual meeting? Apparently it has changed
28 considerably.

29 MR. STEWART: Yes. Normally, I take it, the
30 directors, then, do elect the officers and I take it



1 that the directors are the persons who are primarily
2 responsible for the management of the affairs of the
3 cooperative?

4 MR. STAPLES: We wouldn't put it that way, Mr.
5 Stewart, although I think you are correct in the way
6 you are using it. We try to make a sharp distinction
7 between the policy decisions which would be the
8 responsibility of the Board and the operating decisions
9 which now in Canada, at least, would be the
10 responsibility of the general manager. The typical
11 cooperative now in Canada -- and this varies some --
12 there is only one person responsible to the Board, the
13 general manager, and the Board holds him responsible
14 for operating their business, subject to the policies
15 that they establish, and the establishment of policy
16 varies quite widely.

17 In some cooperatives the Board will consider
18 items of business which other Boards might consider
19 were just details. It varies considerably, but the
20 principle that I mentioned is followed wisely.

21 MR. STEWART: Well then, in addition to the
22 directors, the general manager, the cooperative will
23 have employees who are employed by the cooperative
24 itself. They are servants of the cooperative?

25 MR. STAPLES: Oh yes.

26 MR. STEWART: Well now, then, coming back to
27 this question of the manner in which capital is obtained
28 we have already, I think, had three methods mentioned.
29 The first is the initial membership subscription; the
30 second is the method under which a member may commit



1 himself over a period to put up additional funds which
2 will be related to the amounts he would ordinarily
3 receive from the cooperative, and the third method is
4 through deferment of payment of all or part of the
5 patronage refund?

6 MR. STAPLES: There would be some variations
7 in this, but in the main I think you have stated it
8 correctly -- fairly completely.

9 MR. STEWART: Those are the three methods.

10 MR. D.E. STEWART: Mr. Chairman, there are
11 other methods.

12 MR. STEWART: I am coming to that; I just
13 wanted to identify those three to begin with. I take
14 it if we refer to the joint brief, Appendix B, in
15 paragraph B5 and following through to paragraph B8,
16 an attempt has been made to summarize the normal
17 methods of acquiring capital, and I notice in paragraph
18 B5 that it is stated that a person becomes a member or
19 a shareholder on paying what is usually a nominal amount
20 as a membership fee or as a payment on a share.

21 Then in paragraph B6 it is stated that if
22 there is any further cash contribution by the member,
23 traditionally it will be on a borrower-lender basis.
24 Now, this type of financing which is referred to in
25 paragraph B6, would cover the Fraser Valley type of
26 contribution, if I may call it that, which we have
27 already discussed, but is it also the fact that as the
28 movement in Canada has developed some cooperatives, at
29 any rate, have gone to members and offered bonds or
30 debentures or notes, or some form of obligation, for



1 funds which those members have loaned to the -- or have
2 been prepared to loan to the cooperatives on an interest
3 paying basis.

4 Now, I distinguish this from the Fraser Valley
5 type, because as I understand it, this lending to the
6 extent that it occurs, is not the result of any
7 commitment which is made at the outset, but it is a
8 commitment which is made at the request of a particular
9 cooperative in the course of its operations.

10 MR. STAPLES: Yes, I think you have stated it
11 correctly, Mr. Stewart, except for one point. The
12 balance -- or debentures, was the term I think you used
13 -- would not ordinarily be offered to members as such;
14 they would be offered to anybody who was interested in
15 purchasing them. There is no relationship, no
16 identifiable relationship, between the member and the
17 coop in this regard. The coop needs money and intends
18 to sell debentures, and it would sell them to anybody
19 on the same basis. It might be that the members would
20 buy most of them.

21 MR. STEWART: That is what I was going to
22 come to. In fact, in many cases is a substantial portion
23 of the amount borrowed in that way put up by members
24 of the cooperatives?

25 MR. STAPLES: Well, I have given you the best
26 answer I can. I would like to ask Mr. Fowler,
27 because Federated Cooperatives have had a great deal
28 of experience with this field.

29 MR. FOWLER: Well, Mr. Chairman, the pattern is
30 so varied that it is hard to say. A decision will be



1 made by, perhaps, leadership from the Board that we
2 ought to have something -- canvasses will be made,
3 surveys will be made, the meeting will authorize it,
4 and they will at the same time authorize how it is to
5 be financed. It may be agreed that they go to our
6 cooperative credit society or life insurance company,
7 and take out a mortgage over a period of years. It may
8 be that they decide on a bond issue in their own
9 community. It may be that they ask the central
10 organization to help them with financing, and in the
11 breakdown the Federation will provide some financial
12 assistance to the cooperative on a mortgage basis.

13 Now, in connection with the bonds, again
14 there is some variety. Some of them will be secured
15 bonds with a definite repayable term, and a sinking fund
16 set up to provide for payment. A good many of them
17 are what we would call an open end; that they require
18 \$25,000.00 and they will go mostly to their members in
19 order to sell the securities, and it is open end in the
20 sense that when they get \$25,000.00, some member
21 finds he needs this money and his bond will be sold to
22 somebody else, and in theory they might never pay off
23 that bond issue. It keeps evolving among those
24 members who wish to have surpluses to invest in the
25 cooperative.

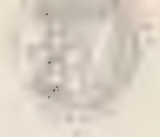
26 Now, I had rather an interesting experience
27 which I think I will relate. I was out to open one
28 of these new stores; in fact, last week I was out to
29 two. This was particularly interesting because it was
30 in a saving community. There wouldn't be a community

1 I mean by that, it's a relationship that the people have
2 with it. I have something -- a relationship with it. I mean
3 always with the people, the people with the people. I mean
4 and they will do it. I mean they will do it. I mean
5 of the people. I mean they will do it. I mean
6 people have a right to do it. I mean they will do it. I mean
7 and take out a mortgage over a period of years. I mean
8 in that case, people have a right to do it. I mean
9 something. I mean they will do it. I mean
10 people have a right to do it. I mean they will do it. I mean
11 and when the Federation will provide some of the
12 assistance to the cooperative on a basis of a loan.
13 Now, in connection with the loan, if the
14 State has some money, some of them will be loaned
15 to them. I mean they will do it. I mean
16 to up to provide for payment. I mean they will do it. I mean
17 and what we would do is to say that they will do it. I mean
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30 to say that they will do it. I mean they will do it. I mean



1 there that wasn't for the coop, and they had a store
2 there since 1914 and it was worn out, that was the only
3 store left in town, and the street looks like Goldsmith's
4 deserted village; vacant buildings all up and down.
5 So, we decided we wanted new premises, and in talking
6 to them I usually do a little bit of crusading, and
7 tell them to patronage their own store, and that sort
8 of thing, and I said, "You probably borrowed some money
9 to pay for this store". Well, in thanking me the
10 president said: "We didn't borrow any money for the
11 store; the members of this community put up the money
12 to build this store, around \$60,000.00". I am not
13 just sure how much was put, but this is the kind of
14 thing that goes on.

15 MR. STEWART: Yes. Well, I take it that these
16 methods of financing which do not relate to the members
17 alone, are described in Appendix B to the joint brief
18 again at paragraphs B16 to B24 -- and perhaps to B22,
19 and I notice there that apart from financing through
20 bond issues of the type that has been mentioned, and
21 through other associations in the cooperative movement
22 -- and I am looking now at paragraph B18 in particular --
23 there have been institutional borrowings, and the
24 statement is made in the second sentence of paragraph
25 B18 that this development of parallelling that of
26 formal security issues reflects the growing maturity of
27 Canadian cooperatives. Then, a couple of sentences
28 down the statement is made that as assets and ownerships
29 grow it becomes progressively easier to obtain funds.
30 That is a clear statement of the positions taken?



TO THE SECRETARY OF THE ARMY

1. The first of the three questions which are
2. asked in the report is: "What is the
3. present status of the work on the
4. subject of the development of a
5. new type of machine gun?" The
6. answer to this question is: "The
7. work on this subject is being
8. carried on by the Ordnance
9. Department, and it is expected
10. that a new type of machine gun
11. will be developed in the near
12. future." The second question is:
13. "What is the present status of
14. the work on the development of a
15. new type of machine gun?" The
16. answer to this question is: "The
17. work on this subject is being
18. carried on by the Ordnance
19. Department, and it is expected
20. that a new type of machine gun
21. will be developed in the near
22. future." The third question is:
23. "What is the present status of
24. the work on the development of a
25. new type of machine gun?" The
26. answer to this question is: "The
27. work on this subject is being
28. carried on by the Ordnance
29. Department, and it is expected
30. that a new type of machine gun
31. will be developed in the near
32. future."

33. THE SECRETARY OF THE ARMY
34. has been informed that the work
35. on the development of a new type
36. of machine gun is being carried
37. on by the Ordnance Department,
38. and it is expected that a new
39. type of machine gun will be
40. developed in the near future.
41. The work on this subject is
42. being carried on by the Ordnance
43. Department, and it is expected
44. that a new type of machine gun
45. will be developed in the near
46. future. The work on this subject
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48. Ordnance Department, and it is
49. expected that a new type of
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192. Ordnance Department, and it is
193. expected that a new type of
194. machine gun will be developed
195. in the near future. The work
196. on this subject is being carried
197. on by the Ordnance Department,
198. and it is expected that a new
199. type of machine gun will be
200. developed in the near future.



1 MR. STAPLES: Yes, I think so. I would like to
2 ask Mr. Parker of Manitoba Pool Elevators to comment on
3 that. This organization has had a great deal of
4 experience in this field, and it may be one of the
5 organizations that has matured.

6 MR. PARKER: Thanks for the compliment! Well,
7 Mr. Stewart, with a few brief remarks I will ask our
8 comptroller to answer the question because he will do
9 it in language which you will understand and much more
10 quickly and concisely than I could do.

11 I merely say this, sir, that the capital
12 expansion that Mr. McDonell may refer to will be this
13 one that was constructed at Port Arthur. This was
14 requested or, shall we use the word demanded, by the
15 members of the Association at its annual meeting two
16 years ago, fully realizing the very heavy capital
17 expansion involved, and fully realizing that the
18 increase requirement, money requirement to finance or
19 carry the overload would inevitably make an impact on
20 the patronage dividends that might result in future
21 years, so it was a service request with full knowledge
22 of what it would mean, except that we underestimated
23 the actual cost. That is par for the course in these
24 kind of things.

25 MR. STEWART: It is not confined to
26 cooperatives.

27 MR. PARKER: I would ask Mr. McDonell to
28 answer the question; he can do it much better than I and
29 in more detail.

30 MR. McDONELL: Mr. Stewart and Mr. Chairman,



1 we have been possibly through the complete mill in this
2 respect. Originally we borrowed outside of our own
3 membership for funds, revolving funds, we borrowed from
4 members through debenture issue. We didn't bother going
5 under the Securities Act of Manitoba and to the Utilities
6 Board for approval, and without their approval we can
7 go directly to our members but it became by mutual
8 arrangement under the Securities Act that the future
9 issues were available to the public, but it facilitated
10 the transfer of investments that are purchased by
11 members through their families and to non-members. Now,
12 we have some four or five million dollars out in that
13 field. We also have a first mortgage bond issue
14 secured by Terminal Elevators, which Mr. Parker talked of,
15 of some \$5,000,000.00 which was borrowed from
16 institutions. In addition to this, we have the usual
17 bank term loans, which act as a more temporary form of
18 term capital. We also borrow regularly from somewhere
19 between \$10 million and \$25 million on the short term
20 money market, with the purpose of financing Canadian
21 Wheat Board grain stocks, so as you can see, there is a
22 complete cross section of methods of financing. Our
23 normal method, our basic method of financing is
24 through general reserves, supplemented for working
25 capital purposes by revolving patronage loan funds from
26 members, and on patronage refunds revolve for a number
27 of years on a two year -- a one year revolving basis,
28 and now on a two year revolving basis, so we have an
29 entirely different set up from what other cooperatives
30 have, but the principles are the same.



1 MR. STEWART: Yes. Thank you very much. Now,
2 if I could go back to the position as regards investment,
3 as between the individual member and the cooperative, I
4 take it that each member has an account with the
5 cooperative in which what I might call his investment
6 appears, would that be correct?

7 MR. STAPLES: Yes.

8 MR. STEWART: And they would be credited, I
9 take it, to that account, his initial share investment
10 and his proportion of deferred patronage refunds?

11 MR. STAPLES: Yes. If you go further into
12 our accounting, Mr. Stewart, you will get me out of my
13 depth. I should think perhaps Mr. Houde could take
14 questions on this.

15 MR. STEWART: Well, I don't want to go into
16 great detail, but if we can have a brief description of
17 the type of entry which is made on that account, I think
18 it might be helpful.

19 MR. STAPLES: I think Mr. Houde can answer
20 that.

21 MR. HOUDE: Could I have the question again?

22 MR. STEWART: I am wondering what items go
23 through the member's account, Mr. Houde? What I am
24 trying to get information on is simply this, that as I
25 understand it there is a separate account on the books
26 of the cooperative for a member; that the amount of
27 initial membership fee or contribution will be reflected
28 there, and if as a result of the operations for a
29 particular year some part of his patronage refund is not
30 actually paid to him in cash, it will be credited to him



1 in some way, whether it is by an appropriation to share
2 capital or to some loan account, or however it may be,
3 then on your rotation system I suppose that ultimately
4 amounts come out of that account. Could you describe
5 very briefly just exactly what a common method of
6 handling this is?

7 MR. HOUDE: Well, the common system would
8 involve a series of accounts for practically all the
9 members. Each member would have his share of the
10 capital account. That is kept separate normally. Each
11 member would have a separate account for contributions
12 as loans.

13 MR. STEWART: Yes.

14 MR. HOUDE: And then each member would have
15 a patronage refund account. Now, of course, patronage
16 refund -- the patronage refund is allocated through
17 the decisions of the annual meeting and would go in each
18 member's patronage refund account, and from there the
19 utilization of the patronage refund would be taken
20 out. If patronage refunds are allocated, and part of
21 it is credited to shares, then there would be a transfer
22 from the patronage refund account to his share account.
23 Now, that would be the type of accounting we would do.
24 It may be very much more detailed; his drawings would
25 be taken out of his patronage refund account, or from
26 the share capital account, if refunds take the form of
27 redemption of shares. It would vary a lot, but I think
28 that would give you the general pattern.

29 MR. STEWART: Thank you very much.

30 MR. HOUDE: If I may, Mr. Stewart, there would



1 be a distinction if we consider the case of an agency
2 coop but that, I gather, will be discussed a little later
3 on.

4 MR. STEWART: Yes, I think we can disregard them
5 at the moment for this purpose.

6 Well, now, the second account that you
7 referred to was an account in which are reflected the
8 members' loan contributions. Now, these are
9 contributions which are not related to patronage refunds.
10 In other words, are these the type of contributions
11 which the Fraser Valley people have referred to, and
12 possibly the type of contribution which represents a
13 direct loan at interest, or are they amounts which
14 originate in a patronage refund account and are
15 transferred to loan account?

16 MR. HOUDE: We could have both, sir, and we
17 always try to keep the accounts separate, so that if
18 there are direct loans, usually we try to keep it in a
19 loan account and distinct for each type of loans.

20 MR. STEWART: I see.

21 THE CHAIRMAN: Mr. Stewart, would you like a
22 break?

23 MR. STEWART: This would be fine.

24 THE CHAIRMAN: We will break for five minutes.

25 ---Recess.

26

27 THE CHAIRMAN: Gentlemen, are you ready?

28 MR. STAPLES: May I say a word on one question
29 which was raised? I would like to draw the attention
30 of the Commission to a publication we have just sent out



1 for in response to some of the questions. It is
2 entitled Abstract of Cooperative Legislation in Canada
3 by H.K. Ingersol, and published by the Economics Division
4 of the Canada Department of Agriculture, and on the
5 question of the legal authority, the cooperatives in the
6 various provinces, and it is very up to date and
7 complete and I suggest that it might be included in the
8 record.

9 THE CHAIRMAN: Thank you very much.

10 THE SECRETARY: We will enter this in the record
11 as Exhibit 208.

12 ---EXHIBIT NO. 208: Abstract of Cooperative
13 Legislation in Canada by
H.K. Ingersol.

14 THE CHAIRMAN: Will you proceed, Mr. Stewart?

15 MR. STEWART: Thank you, Mr. Chairman.

16 Now, gentlemen, one feature of the relationship
17 between the cooperative and the member which I would
18 like to come to is this; the member, as Mr. Houde said,
19 has a number of accounts with the cooperative, and I
20 suspect that the practice on cooperatives may vary
21 according to the relative amounts of patronage refunds
22 allocated but not distributed and which are transferred
23 to the share account in some cases, and to the loan
24 account in other cases, but I would like to refer to
25 two parts of these briefs which we are considering
26 today for enlightenment on this particular point. First
27 of all, if you look at the joint briefs, Appendix B
28 again, page B8, there is a statement at the end of
29 paragraph B24 to the following effect, that there has
30 been a shift in members' equity accounts from loan to

1 Now in response to some of the questions. It is

2 exhibited abstract of cooperative legislation in 1934

3 of H.M. Lippert, and President of the National

4 of the United States of Agriculture, and a

5 question of the day is whether, in cooperation in the

6 various provinces, and it is very up to date

7 exhibited and I suggest that it might be included in the

8 General

9 THE ALLIANCE: Thank you very much.

10 THE SECRETARY: We will enter this in the

11 as Exhibit 200.

12 --EXHIBIT 200-- Abstract of Cooperative

13 legislation in Canada by

14 H.M. Lippert, President

15 of the National

16 of Agriculture, and

17 President of the

18 United States of

19 Agriculture, and

20 President of the

21 United States of

22 Agriculture, and

23 President of the

24 United States of

25 Agriculture, and

26 President of the

27 United States of

28 Agriculture, and

29 President of the

30 United States of



1 share capital; the shift having been made not to
2 maximize tax savings but rather to provide a sound system
3 of financing. Then, while we are still on that joint
4 brief in this respect, you will recall that on page 33
5 on the proposals which is made to this Commission, and
6 one which is dealt with and developed later on in the
7 joint brief, is that -- and I am referring now to
8 paragraph 68, item 5 -- the proposal is that interest
9 paid on cooperative shares should be deductible as an
10 expense and not considered as a distribution of profit.

11 Well now, when I go to the brief of the Federated
12 Cooperatives, I find on page 28 the statement in
13 paragraph 60 that cooperative shares largely represent
14 patronage refunds not yet returned in cash. Some
15 cooperatives pay interest on shares while others do not.

16 Now, what I would like you to tell me if you
17 will is whether you regard the relationship between
18 the cooperative and the member as essentially a debtor
19 and creditor relationship, or as a member-company
20 relationship? Putting the question another way, is
21 the relationship between the member and the cooperative
22 essentially in your view a creditor relationship or is
23 it a straight equity relationship?

24 MR. STAPLES: I am not sure that I understand
25 the question, Mr. Stewart. I would like to ask Mr.
26 Fowler to comment, but before he does so I might say
27 this much, that the members of the cooperative are not
28 primarily concerned with the technical aspects. What
29 they want to do is have a cooperative to provide them
30 with the service that they need, and the money that they



1 put in there is in order to make it possible for them
2 and their associated producers or consumers to have a
3 cooperative. Now, the way it is worked out, as has
4 been explained, I think that Mr. Fowler could describe
5 the reasons why -- what the situation actually is and
6 the reasons for the shift to share capital in some
7 cases, and in doing so comment on the relationship
8 between the member and the coop, finance-wise, which I
9 think is the area you are seeking information on.

10 MR. STEWART: Thank you.

11 MR. FOWLER: We are somewhat handicapped by
12 the fact that at the initial stage of the organization
13 of cooperatives in Canada that there is no precedent
14 to be established in the sense that there is no
15 cooperative pattern, so everybody picked up the joint
16 stock cooperative pattern, and we are cursed with that
17 now; I think that is a fair statement. I hope that the
18 solicitor has read the, perhaps, rather long treatise
19 on this matter by the Honourable Mr. Justice Woods.

20 MR. STEWART: Yes, I read that. In connection
21 with one of these briefs, you mean?

22 MR. FOWLER: Yes. The investment in
23 coop, we call it a share, bears very little relationship
24 to the share that anybody might own, say, in General
25 Motors. Now, going all over the -- I will put it this
26 way -- we have various patterns. We had a balance
27 sheet that was a dog's breakfast. We had some preferred
28 patronage refunds, and it had half a dozen different
29 accounts of the members, and this was annoying and most
30 confusing. A committee was set up to sort of look into

1. and in which it is stated that the committee is of the opinion
2. and their capacity to discharge its functions is being
3. cooperation, and, in any case, it is stated that the
4. from the committee. I think that the committee is of the opinion
5. and in some way -- what the committee is of the opinion
6. the committee is of the opinion that the committee is of the opinion
7. of the committee is of the opinion that the committee is of the opinion
8. between the committee and the committee, the committee is of the opinion
9. think is the committee is of the opinion that the committee is of the opinion
10. MR. BOWLING: I think you are of the opinion that the committee is of the opinion
11. MR. BOWLING: We are of the opinion that the committee is of the opinion
12. the fact that at the initial stage of the organization
13. of cooperation in which the committee is of the opinion
14. to be established in the committee is of the opinion
15. cooperative nature, as a result of which the committee is of the opinion
16. stock cooperative nature, and the committee is of the opinion
17. now I think that is a very serious matter, and the committee is of the opinion
18. relation to the committee, and the committee is of the opinion
19. on this matter of the committee is of the opinion that the committee is of the opinion
20. MR. BOWLING: I think you are of the opinion that the committee is of the opinion
21. with one of the committee is of the opinion that the committee is of the opinion
22. MR. BOWLING: I think you are of the opinion that the committee is of the opinion
23. now, we are of the opinion that the committee is of the opinion
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1 this very carefully, and the committee came out and
2 said that the members should have one account in his
3 relationship with the coop in terms of its ownership,
4 and call it anything you like; just should have one
5 equity account and this simplifies it if the member
6 understands it, and therefore the recommendation was
7 made, and there was a move during the 1950's that the
8 local coops and all the consumer coops should move to
9 one pattern of equity ownership and call it, as I say,
10 as you will, and we do call it shares but it is not
11 shares.

12 Now then, we think that members in a cooperative
13 should be allowed to establish policies and if they want
14 to pay interest on the investment, that is their
15 business; if they don't want to, then, the money
16 doesn't disappear. It is said somewhere here that the
17 patronage refund will be kept; it doesn't disappear.
18 It is a group of people associating for a high grade of
19 mutuality and they should make the kind of decisions
20 that they want to make.

21 Now, finally just a few words, Mr. Stewart,
22 and you were asking about the relationship, and I would
23 say that probably it is somewhere between a loan and
24 a share in the ordinary concept of the words. It is
25 something new. A member in a coop in an equity and
26 financial relationship is different, and there is no
27 precedent in any other form of business.

28 MR. STEWART: Thank you very much. That is a
29 very clear statement.

30 In any event, I take it that these balances



1 in the members' accounts reflect essentially investments
2 by the members in the cooperatives?

3 MR. STAPLES: Yes.

4 MR. STEWART: And I take it also that over the
5 years these investments, no matter how they originated,
6 have grown very materially and they now form a very
7 substantial portion of the total capital employed of the
8 cooperatives.

9 MR. FOWLER: I would like to say that I brought
10 with me a copy of the membership account of two different
11 members, one a farmer and one a city person, showing
12 the pattern of the refund and showing how it is done,
13 and this may be of some use to you, but on the last
14 statement made I think at large it is a generality that
15 most of the capital now in cooperatives which is
16 contributed to by the members is, in the main, through
17 the retention and loaning back of the earnings of the
18 cooperatives by the members. In these cases here, this
19 is 100 per cent. Now, the statement does not show what
20 amount of cash was put in; it was lost in the records.
21 The Commission can take a look at it.

22 MR. McDONELL: Mr. Stewart, this is not a
23 pattern that always follows. Our organization takes
24 the attitude that our cooperative initially had no
25 basic capital, such as the share capital contribution
26 of an ordinary shareholder to a private company, and
27 that over the years permanent capital must be put into
28 the business so that the ordinary members' annual
29 patronage will revolve out faster and you get it ahead
30 of time, so we have what we choose to call for lack of



1 a better word a general reserve, which over the years
2 has been built up to replace the ordinary capital
3 investment of the owner. That provides a semblance of
4 permanency to it. In our annual patronage dividends,
5 or patronage loan, if you wish to call it that, is a
6 relatively small thing. So, you have the different
7 patterns, and this picture shouldn't be confused by
8 trying to oversimplify it. There are a great many
9 patterns in this picture all across Canada.

10 MR. STEWART: Thank you very much. When you
11 say you have a general reserve, out of what funds has
12 that been built up?

13 MR. McDONELL: It has been built up out of
14 earnings.

15 MR. STEWART: Now, in that regard I take it
16 that your pool is perhaps unusual?

17 MR. McDONELL: I think you will find that
18 everyone has a reserve fund. Ours happens to be a
19 little bit larger.

20 MR. STEWART: I appreciate that they all have
21 reserve funds, but the amount of your general reserve
22 in relation to your total assets is a higher percentage?

23 MR. McDONELL: We suggested earlier that our
24 organization has matured a little more than others, and
25 I think that is so. I think you will find that any of
26 these cooperatives are in the process that we were in
27 a number of years ago, of not having reached the
28 maturity where they have a permanent capital, but they
29 are getting there.

30 MR. STEWART: As you have gone on, you have



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...been ... up to ...

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MR. TOLSON: ...

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MR. TOLSON: ...



1 already indicated that you have had access or been able
2 to borrow from the institutions on the short term money
3 market, and so on; a combination of this and this
4 general reserve fund that you have referred to have
5 permitted you to reduce your dependence on retained
6 patronage amounts.

7 MR. McDONELL: Yes, and the attitude in the
8 organization is to temporary fluctuations in term
9 capital that is required, that it should come from normal
10 channels, but that permanent basic capital should come
11 the permanent, so called, general reserve, and that
12 working capital should come from another source, through
13 banks and through short term money, and through the
14 revolving of members' current patronage earnings.

15 THE CHAIRMAN: Before you leave this subject,
16 there is something which I don't understand.

17 MR. STEWART: Please go ahead.

18 MR. STAPLES: If I understood your question
19 correctly, Mr. Stewart, we haven't quite answered it.
20 It concerned the amount of money that the members have
21 in cooperatives in proportion to other sources of funds.

22 MR. STEWART: Well, I was going to get at that.

23 MR. STAPLES: Maybe you could put it again.

24 MR. STEWART: Of course, the Chairman has a
25 question.

26 THE CHAIRMAN: I was just concerned about
27 recommendation 5 on page 33 of the joint brief, which
28 recommends that interest paid on shares should be
29 deducted as an expense, but I think I missed something
30 in this discussion because the distribution of cooperative



1 already indicated that you have had access to the
2 to learn from the testimony on the subject of the
3 market, and so on; a combination of this and this
4 general reserve fund that you have referred to
5 perhaps you do reduce your dependence on reserves
6 perhaps somewhat.
7 MR. MONTGOMERY: Yes, and the amount in the
8 organization is the temporary liquidation in the
9 capital that is required, that is the amount that is
10 required, but that permanent basis capital should be
11 the permanent, so called, general reserve, and that
12
13 banks and through short term money, and through the
14 revolving of money, current resources available.
15 MR. CHAIRMAN: Before you leave this subject,
16 there is something which I don't understand.
17 MR. MONTGOMERY: Please go ahead.
18 MR. MONTGOMERY: If I understood your question
19 correctly, Mr. Boardman, we haven't quite agreed as
20 to concerned the amount of money that the members have
21 in a representative proportion to their assets of 10
22 MR. MONTGOMERY: Well, I was not at all sure
23 MR. MONTGOMERY: Would you could not be right.
24 MR. MONTGOMERY: Of course, the question is
25
26 MR. MONTGOMERY: I am not sure that I understand
27 recommendation 5 on page 12 of the report, which
28 recommends that the Federal Reserve should be
29 included as an enterprise, but I think I should be
30 in this discussion, I am not sure that I understand it.



1 profit by way of patronage and dividends is deductible,
2 as I understand it, from profits, according to the
3 Income Tax Act, and therefore I didn't understand why
4 it might be desirable to treat interest differently.
5 Do you understand that?

6 MR. STEWART: Well, Mr. Chairman, I am not
7 certain of this, but these gentlemen can tell us under
8 the present practice if what the movement may call
9 interest, but what might otherwise be regarded as
10 a cash dividend, is paid on share capital, or the amounts
11 in the share account, and I am not referring now to
12 payment by way of patronage refund but to a straight
13 return on that invested capital. I take it that the
14 patronage dividend deduction does not extend to this
15 other type of payment?

16 MR. STAPLES: That is right. Notwithstanding
17 the fact, Mr. Stewart, that the shares in a cooperative
18 typically are in some important respects quite different
19 from shares in other types of business, as you know.
20 The return on the share, whether it is called dividends
21 or interest doesn't matter, but typically it is paid out
22 of taxed income.

23 THE CHAIRMAN: Thank you, I understand the
24 point. I am attaching my significance to the term
25 "interest", and it is the dividend on the shares and
26 not the patronage dividends with which we are concerned
27 under Item No. 5, and that is not permitted as a
28 deduction as the law understands it?

29 MR. BLAIR: That is right, sir.

30 COMMISSIONER GRANT: Mr. Chairman, before we



1 proceed on another item, as I understand it, most of
2 the permanent capital that is retained in a given
3 coop is taken from the reserves on which income tax
4 has been paid by the coop?

5 MR. STAPLES: If by "permanent", Mr. Grant,
6 you mean money that belongs to the cooperative as such
7 in general reserves and cannot be attributed to any
8 particular member, then this would be correct.

9 COMMISSIONER GRANT: That is what I am referring
10 to. The term "permanent capital" has been used here
11 this morning, and if you say that that is correct, then
12 most of this permanent capital that is in the control
13 of the coop has been put there from the tax paid
14 reserve. In other words, what is left after you have
15 paid the tax of 3 per cent on the working capital.

16 MR. STAPLES: I think that is correct, yes.
17 Would you like one of us to make a more complete statement
18 on this?

19 COMMISSIONER GRANT: No, I am quite satisfied.

20 MR. STEWART: Well now, if we can go back to
21 these members' accounts. There is a feature of this which
22 I would like to explore with you and I will attempt to
23 put a hypothetical case to you so you can tell me
24 whether or not the position is correctly stated.

25 Let us suppose that a particular person whom
26 we will call Mr. X has been a member of a particular
27 cooperative for fifty years and during that time he has
28 been an active patron of the cooperative, and there has
29 been built up in his account or accounts with the
30 cooperative, perhaps largely as a result of appropriations



1 to share account, the sum of, let us say, \$5,000.00.
2 Then, let us suppose we have another person whom I will
3 call Mr. Y, who has just become a member of that
4 particular cooperative and has been a patron for only
5 one year, the current year, and as a result the amount
6 to the credit of his account or accounts with the
7 cooperative, or his share account at any rate, is, let
8 us say, \$1.00. So that Mr. X has a credit of \$5,000.00
9 and Mr. Y of \$1.00, and let us suppose that in that
10 particular year for some reason Mr. X does not patronize
11 the cooperative at all, and that Mr. Y does patronize
12 the cooperative; he sells his products to it or he buys
13 his merchandise from it, whichever type of cooperative
14 it might be, and when the year is over and the question
15 of patronage dividends in respect of that particular
16 year is up for consideration, let us suppose to make it
17 simple that that year everything is being paid in cash,
18 is it the fact that Mr. X, who has an investment of
19 \$5,000.00 in the cooperative receives nothing by way of
20 patronage dividends; Mr. Y, who has no investment in
21 the cooperative at all, except in the sense that he
22 has been dealing with it in the current year, he
23 receives his normal proportion of the total amount
24 distributed by way of patronage dividend.

25 MR. STAPLES: Yes, that is correct. In other
26 words, well, he gets the same treatment as Mr. X got
27 forty-nine years ago.

28 MR. STEWART: Yes. So that when you join a
29 cooperative, this is one of the features which you
30 understand and you accept?



1 MR. STAPLES: Yes.

2 MR. STEWART: And it may be an extreme case,
3 but it seems to me to highlight the fact that the
4 investment which is made is regarded as of little
5 importance, and that the people that benefit from the
6 operations of a particular year are those who have dealt
7 with a cooperative in that particular year, and they
8 benefit according to the amount of their dealings?

9 MR. STAPLES: That is correct. In some cases
10 Mr. X will receive some interest or dividend on his
11 \$5,000.00 which is paid as an expense of doing business,
12 if it is interest on a loan, but you are right in saying
13 he gets no part of the patronage return because he
14 didn't patronize it.

15 MR. STEWART: I appreciate that. I should have
16 said that this particular cooperative did not pay
17 interest on members' accounts.

18 MR. McDONELL: Your example never happens,
19 because you never do pay cash under those circumstances.
20 You pay cash to Mr. X who has the \$5,000.00 in investment
21 and he gets some of his \$5,000.00 back, and Mr. Y
22 invests some to replace Mr. X's capital.

23 MR. STEWART: What I was going to come to is
24 this, that assuming that this particular cooperative
25 remains solvent, that over a period -- and in any event
26 I take it that when he dies or resigns or otherwise
27 ceases to be a member, the expectation is that he will
28 get his \$5,000.00?

29 MR. STAPLES: Yes.

30 MR. STEWART: Is that right?



1 MR. McDONELL: In our case he would get it
2 the year after next.

3 MR. STEWART: That is right, but I am aware
4 of the fact that as you indicated in your brief the
5 amount of the patronage dividend, or the amount withheld
6 from the people that you refer to, is comparatively
7 small, and I also appreciate that within the movement
8 there may be all sorts of gradations in this regard,
9 that it is not likely that in this respect your
10 cooperative is somewhat unusual?

11 MR. McDONELL: No. I would say those who
12 retained the patronage dividend until you die are the
13 unusual ones, and a great majority of them revolved
14 over a period of as few years as possible.

15 MR. STEWART: When you say "as few years as
16 possible", you have gone on a two year basis, but what
17 proportion would be on as short a basis as two years?

18 MR. McDONELL: One cooperative of which I am
19 a member, for a while there they were on a share
20 capital basis and were drawing 10 per cent of their
21 shares. In that case it is not ten years, they can
22 extend beyond ten years; on a 10 per cent gradation
23 basis it would extend to probably 15 years, and most
24 consumer cooperatives are on that basis. They have a
25 pattern for retiring the members' equity; either a
26 percentage of the existing shares or on a revolving
27 credit basis.

28 MR. STEWART: Would you say that a fifteen year
29 cycle would be normal in that type of cooperative?

30 MR. McDONELL: I have no appreciation of what



1 the cross country picture is.

2 MR. D.E. STEWART: Mr. Chairman, Mr. Stewart
3 just amplified this in the last question, as to knowledge
4 of what the consumer cooperatives are doing in this
5 regard. I believe in the Federated brief this is
6 contained. However, in the last two years, the previous
7 years, people stated that cooperatives were getting in a
8 better position to revolve their fixed capital, and in
9 1962 the savings in the consumer cooperatives in the
10 prairie provinces -- this is virtually all of them --
11 was 5.6 million dollars, and a revolved 3.7 million,
12 which is approximately close to 67 per cent of the
13 total. In 1961, 478 cooperatives -- and this is
14 virtually all the cooperatives, the saving for the
15 membership was 5.8 million, and they revolved their
16 share capital to the tune of 3.9 millions. Now, these
17 statistics may be of some help to you.

18 MR. STEWART: Thank you very much. I observe
19 in this connection, and in connection with the
20 financing cooperatives generally, that on page 2 of
21 Prof. McIvor's article on recent growth in Canadian
22 cooperatives, with which I am sure you are all familiar,
23 he says this, and I am reading from the bottom of page
24 2:

25 "Cooperatives in general
26 seek to establish a financial
27 structure in which their paid
28 up share capital is at least
29 equal to fixed assets and in
30 which members' equity (liabilities

that capitalised this in the last position. I believe in the movement and believe in the
of what are consumer co-operatives and believe in the
movement. I believe in the movement and believe in the
contained. However, in the last two years, the position
years, people asked that co-operatives were not in
better position to receive their fixed capital, and in
1932 the savings in the consumer co-operatives in the
principle provided -- this is virtually all of the
was 5.8 million dollars, and a received 3.1 million
which is approximately 50 per cent of the
total. In 1931, 475 co-operatives -- and this is
whereas all the co-operatives, the savings for the
membership was 5.8 million, and they received their
the capital to the tune of 3.1 million. Now, these
statistics may be of some help to you.

MR. TOWNSEND: Thank you very much, I believe
in this connection, and in connection with the
financial co-operatives generally, the 50 per cent of
total. I believe in the growth in the
co-operatives, which which I am sure you are all familiar with.
he says this, and I am reading from the bottom of the

co-operatives in general
work to establish the
movement in which this is
up their capital and in
and in
with the movement, and in the



1 to members plus net worth) is at
2 least equal to the liabilities
3 to the public".

4 Now, I am interested in particular in the
5 second part of that statement, that members' equity,
6 which he defines as liabilities to members, plus net
7 worth, is at least equal or should be at least equal to
8 the liabilities to the public, and then he goes on and
9 deals with that second part of the proposition, and
10 says at the bottom of page 2:

11 "Between 1947 and 1957 the
12 ratio of members' equity to
13 liabilities to the public declined
14 from a ratio of 1.35 to one of
15 0.84, and then the decline continued
16 between 1957 and 1960 from 0.84 to
17 0.79".

18 And then he goes on:

19 "This, of course, indicates a
20 trend toward greater reliance on
21 outside capital, of which loans
22 from banks, credit unions and
23 regional cooperative wholesalers
24 are important".

25 Then he points out that these ratios take into account
26 the four major grain handling organizations and uses for
27 term bank loans to a considerable extent, and he says
28 that if those four cooperatives are excluded, that with
29 that exclusion there will be liabilities to the public,
30 and that ratio which was down to 1.73 in 1958, rose to



to members (plus new words) is at

least equal to the liabilities

to the public.

Now, I am interested in particular in the

which is defined as liabilities to members, plus new

words, is at least equal or should be at least equal to

the liabilities to the public, and when he goes on and

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liabilities to the public decreased

from a ratio of 1.35 to one of

0.94, and then the decline continued

between 1957 and 1960 from 0.94 to

0.79.

and then he goes on

"That, of course, indicates a

long-term erosion of

equity capital, of which losses

from taxes, credit unions and

regional cooperative organizations

are important.

Then he states that that these ratios have also declined

the four major financial institutions and that the

ratio has fallen to a considerably lower level, and he says

that if those four major banks are considered, that the

the examination found that the liabilities to the public

and that ratio which was down to 1.75 in 1947, was



1 1.76, and to 1.77 in 1959 and 1960, and he draws the
2 conclusion that a sharp distinction must be made between
3 the distribution of cooperative finance in the grain
4 trade and in the more typical remaining marketing and
5 merchandising areas.

6 Now, this would indicate -- leaving aside the
7 pools and the United Grain Growers -- that in 1960 you
8 had 1.77 times as much capital represented by members
9 plus the investment as you did in liabilities to the
10 public. Could you comment on that at all, Mr. Staples?
11 Would you think that was substantially correct? And
12 would you think that there had been any marked change
13 in that since 1960?

14 MR. STAPLES: Well, as far as we know, Mr.
15 McIvor's figures are correct; they agree with the figures
16 we have in our brief. As far as later figures are
17 concerned, it goes to 1.87 per cent in 1960 and 1.66
18 per cent in 1961. We have taken it a little further.
19 I am quoting from page 37 of the joint brief.

20 Now, on the general problems in this area,
21 if I may I would like to call on Mr. H.F. Simon,
22 because he is very familiar with these trends, and the
23 trends have given us some concern in some years. I
24 think that Mr. Simon could illuminate this considerably.

25 MR. SIMON: I might say, Mr. Stewart, that
26 the comments which are on page 7, and which Mr. Staples
27 mentioned, had as their basis the remarks that you have
28 read from Mr. McIvor's study of recent growth in
29 Canadian cooperatives. I would like to emphasize the
30 point, the factors that constitute strength or weakness



conclusion that sharp distinction must be made between
the distribution of cooperative finances in the United
States and in the more typical non-United States situation,
merely stating a fact.

Now, this would be a -- leaving aside the
facts and the United States situation -- fact in 1967, you
had 1.77 times as much capital represented by Americans
plus the investment as you did in 1960. Is that
right? Could you comment on that at all, Mr. Starnes?
Would you think that was a substantially correct? And
would you think that there had been any marked change
in that since 1960?

MR. STARNES: Well, as far as we know, Mr.
Belmont's figures are correct; they agree with the figures
we have in our brief. As far as the figures are
concerned, it goes to 1.77 per cent in 1960 and 1.77
per cent in 1967. We have shown it in Exhibit 1, I think.
I am quoting from page 17 of the brief.

Now, on the general problem in this case,
if I may I would like to call on Mr. L. R. Simon.
Because he is very familiar with these figures, and as
friends have given us some concern in some parts. I

think that Mr. Simon could illuminate this considerably.
MR. SIMON: I might say, Mr. Belmont, that
the comments which are on page 7, and which the parties
mentioned, had as their basis the remarks that you have
read from Mr. Belmont's study of recent years.
I would like to emphasize the



1 in the capital structure of any organization may vary
2 with the circumstances of each particular case, and
3 while Professor McIvor in his study no doubt had some
4 basis for the remarks which he made which would indicate
5 a long range plan, this plan is really not known to me,
6 and I have contacts with most, if not all, of the
7 consumer cooperatives in Manitoba, Saskatchewan and
8 Alberta, and we find great variances existing between
9 associations in the same business.

10 For example, we have a number of rather small
11 cooperatives with perhaps a fairly complete range of
12 items for sale to their members. Because their trading
13 area is rather small, this means that they do not turn
14 over their inventory very often, and this has an impact
15 on their current liabilities as compared to their current
16 assets. I realize that most of the Commission will sort
17 of follow me in this, and if I am going past your
18 knowledge of accounting, please do not hesitate to
19 interrupt me.

20 In some of the organizations, and these are
21 also consumers' organizations, we may be in a business
22 which has a rather rapid turnover of inventory, and
23 here I am thinking of our petroleum associations; this
24 has an impact on the debt structure and the amount of
25 capital required. In a petroleum cooperative you don't
26 need to have a heavy investment in fixed assets,
27 compared to the amount of volume that is transacted.
28 In other organizations, and perhaps larger centres,
29 we have perhaps greater differences in the blend of the
30 inventories and how they are sold. This again has an



1 impact on the capital structure. And we have a group
2 in federated, the retail services people, who would
3 really be more conversant with actual detail as to the
4 amount of grain, etc., but in my discussions with them
5 they indicated that they looked at the individual
6 circumstances in order to evaluate them in so far as
7 they are concerned. There is no general value that
8 they can establish that applies to all cooperatives
9 when you start examining balance sheets and operating
10 ratios.

11 MR. STEWART: Thank you very much.

12 Well now, if we could leave for the moment
13 at any rate this question of the financing of cooperative
14 enterprise, I would like to ask you some questions, if
15 I may, concerning the conduct of business by cooperatives.
16 We have already found -- and I put this in by way of
17 background -- that these cooperatives had their own
18 officers and employees, who are employed by the
19 cooperative in question. We have found that they have
20 got their own capital -- well, I take it, and perhaps
21 this should be my first question, that whatever
22 inventories and fixed assets they may require, they
23 proceed to acquire for their particular purposes. So
24 that these inventories and fixed assets are owned by
25 the cooperatives themselves.

26 MR. STAPLES: That is correct.

27 MR. STEWART: Well now, let us deal first of
28 all to some extent with marketing cooperatives. I take
29 it that the basic function of a marketing cooperative is
30 to deal or is to market products which are produced by



1 its members, but would it be true in the ordinary case
2 that a marketing cooperative is also prepared to deal
3 with or to market products produced by non-members?

4 MR. STAPLES: Well, here the situation varies
5 quite widely, of course. The proportion of non-member
6 business in a typical marketing cooperative would not be
7 large, but it is difficult to generalize. I am not sure
8 there are any marketing cooperatives that restrict their
9 business to members only by policy. Perhaps I should
10 be corrected on that if I am wrong.

11 MR. McDONELL: In our own organization, Mr.
12 Chairman, and I think it is typical of the other pools --
13 they can speak for themselves -- we are required because
14 we have a public country elevator license, it is
15 required under the Canada Grain Act to accept members,
16 and it averages somewhere between a quarter and a half
17 of one per cent of the total.

18 MR. STAPLES: I think, Mr. Stewart, that we
19 might hear from another group briefly on this, if Mr.
20 MacKichan of United Maritime Fishermen were to tell us
21 how they operate in this respect.

22 MR. MacKICHAN: Mr. Chairman, I would like to
23 make it clear at the beginning that United Maritime
24 Fishermen does not deal directly with fishermen. We
25 are organized and chartered by the Canada Companies Act
26 under federal letters patent of 1947, and our members
27 are corporate members, and the local fishermen conduct
28 their own business, their own processing, and they turn
29 that product over to the United Maritime Fishermen's
30 central office to market. Our functions are two; the



1 first is a marketing function; the second is to supply
2 locational goods to these fishermen. So, you will say
3 that their contact is with the fishermen's organization
4 and not individual fishermen. In our trade market
5 we do do marketing for trade members. We might, if we
6 are short of a product of a certain type, we may pick
7 up some from a friendly competitor, and we will also
8 supply a friendly competitor with a product we have in
9 surplus. That deals with that.

10 MR. STEWART: Let me ask this; to what extent
11 does a marketing cooperative purchase the produce at
12 markets and resells it, and to what extent does it act
13 simply as a sales agent? Putting it another way, I am
14 sure this all doesn't go one way, but generally speaking
15 does title to the produce pass to the marketing
16 cooperative, and is the produce then resold by it, or does
17 title remain with the producer?

18 MR. MacKICHAN: In the Maritime Fishermen we
19 do not take title to the product, except to the extent
20 that we may finance under Section 88 of the Bank Act.

21 MR. STEWART: When you say you do not take title,
22 you deal with corporations?

23 MR. MacKICHAN: Yes.

24 MR. STEWART: Does the corporation have title?

25 MR. MacKICHAN: I would think not.

26 MR. STEWART: Do you think that the fish will
27 remain with the fishermen?

28 MR. MacKICHAN: Until it is processed, and
29 then they take title to it.

30 MR. STAPLES: On this type of marketing, the

first is a ministerial function, the second is the supply of educational needs to these children. We have not yet seen their conduct in with the Government's activities.

and not individualism. In our first meeting we have not reached the final measure. In regard to the third of a project of a court in 1954, we have not yet seen from a judicial committee, and we will also supply a judicial committee with a report we have in the past. I am sure with them.

1. 1954: We are still in the same position. Does a committee and a committee have the power to conduct a committee in, and we have exacted from the state as a state agency. During the summer of 1954, I am sure that all children in the state, but especially in the state will be the same as the state. Does this to the state of the state, or to the committee, and in the state the state will, or to the state with the state.

1. 1954: In the summer of 1954, we have not yet seen from the state to the state, and we have not yet seen from the state to the state. We have not yet seen from the state to the state.

1. 1954: We have not yet seen from the state to the state, and we have not yet seen from the state to the state. We have not yet seen from the state to the state.

1. 1954: We have not yet seen from the state to the state, and we have not yet seen from the state to the state. We have not yet seen from the state to the state.



1 Fraser Valley Milk Producers have good experience.

2 Perhaps Mr. Brannick would give us the answer to your
3 question as to who owns the milk.

4 MR. BRANNICK: Mr. Commissioner, are you asking
5 who owns the milk of the non-members? In our particular
6 case the members' milk is assigned to the organization,
7 but speaking about non-members selling non-members
8 products, sometimes you develop a market and for some
9 reason or another you have to fill that market and you
10 go out and buy, and any profits that are made are
11 declared as profit and we pay income tax on them, the
12 profits made on that. We have non-members who, for
13 religious purposes, and probably dominion government
14 members of ours -- I don't believe they can join any
15 organization, and there are some religions that can't,
16 and we treat them exactly the same as we treat ourselves.

17 MR. STAPLES: Really, Mr. Stewart, there is
18 not a simple answer to it. Some organizations buy from
19 the members and sell and live on the difference, so to
20 speak, and other organizations just handle it for the
21 members account and the difference is rather clear cut,
22 of course, but it varies from one organization to
23 another.

24 MR. STEWART: It is effected, I take it, to
25 a considerable extent by governmental legislation,
26 marketing boards, and so on?

27 MR. STAPLES: This would be a factor, but the
28 history of these organizations, while they are in this
29 respect quite different, goes back a long long way
30 before there were any boards, and that sort of thing.



1 These are two somewhat different concepts.

2 THE CHAIRMAN: Could you give a few examples,
3 Mr. Stewart? I know this is a pretty important matter.
4 I know that the wheat pools really act as agents, and I
5 am wondering if you can speak of a few more commodities.

6 MR. PARKER: Mr. Chairman, if I may, I
7 wouldn't like to say categorically that we take title to
8 wheat, oats and barley that actually belongs to the
9 Canadian Wheat Board under the Dominion Government
10 legislation. We are agents of the Canadian Wheat Board.

11 THE CHAIRMAN: I intended to say that you
12 were acting as agents.

13 MR. PARKER: We are agents of the Wheat Board,
14 but we are responsible; we use this as collateral for
15 borrowing money from the bank until we deliver the
16 stocks physically. In the Lakehead or Vancouver, or
17 the terminal point where we turn the paper over to the
18 Canadian Wheat Board, then we get our money. Now, I am
19 not a lawyer, so I don't know whether we own them or
20 not.

21 MR. STEWART: There seems to be a remarkable
22 lack of clarity on who does own that wheat.

23 MR. PARKER: There is no question that we take
24 control, but we have not finally settled with our
25 members until the year end when you have determined what
26 the actual results of a sale are, and we also handle
27 some on consignment, but until we know the year end
28 we haven't made our final payment, so we think -- we
29 are acting as agents for the moment, but in the meantime
30 -- as to the legal position, don't ask me.

THE CHAIRMAN: Could you give a few minutes?
Mr. Chairman, I know this is a pretty important matter.
I know that the whole people really are interested, and I
am wondering if you can speak of a few minutes.
Mr. Chairman, I know this is a pretty important matter.
I know that the whole people really are interested, and I
am wondering if you can speak of a few minutes.
THE CHAIRMAN: I intended to do that you
were looking at a report.
Mr. Chairman, we are looking at the report.
and we are responsible; we are not as responsible as
borrowing money from the bank and we are not
associating physically. In the business of borrowing
the money, I hope there we have the same thing as
Canadian Bank Board, then we get our money. Now, I am
not a lawyer, so I don't know whether we are there or
not.
Mr. Chairman, there seems to be a real thing.
lack of clarity on the other side of the
Mr. Chairman, there is no question that is
control, but we have not really settled that yet.
nobody until the year and we have not really settled that
the annual results of a sale and we have not really
some on a case by case basis, but until we have the
we have not our final figures, so we think --
the acting as a case for the money, but in the meantime
-- a lot of things, and we are not



1 THE CHAIRMAN: You are both agents for the
2 farmer and the Board?

3 MR. PARKER: That is our concept. We
4 certainly are legally, so far as the Board is concerned.
5 The contract sets out specifically that we are agents
6 of the Wheat Board and we are responsible.

7 THE CHAIRMAN: You don't run into any conflict
8 of interest in representing both sides of the transaction,
9 I take it?

10 MR. PARKER: Not with the Wheat Board. They
11 are Dominion Government.

12 MR. STEWART: What about livestock, for example?

13 MR. STAPLES: The typical cooperative in
14 marketing livestock in the form of meat products,
15 processing and packing plants, the typical cooperative
16 in this field, I believe, is in the category that buys
17 and sells. This would be true in Quebec, would it not?

18 MR. JOBIN: Well, we should say that we receive
19 the meat as a consignee, but at the time we do process
20 the meat. I don't know exactly the result, but in
21 Quebec, you see, we have a market contract which provides
22 that the members are bound to deliver their meat --
23 their products to the local cooperative, and the local
24 cooperative is bound also to deliver this product to the
25 Federated, and the cooperative is bound to receive and
26 to sell the product, and I would say it was a case --
27 in the case of tobacco it was decided that the assets
28 were the property of the member and not of the
29 cooperative. At least in the case of the Society.

30 MR. STEWART: Have you got some other examples,

THE CHAIRMAN: You have a motion for the

motion and the motion

MR. HARRIS: There is one concept, I

concerning the liability, so I think the Board is

the Board as a self-governing body, and we are

of the Board and we are responsible.

THE CHAIRMAN: You have a motion for the

of interest in representing both sides of the

MR. HARRIS: Now with the Board, I

the Board's

MR. HARRIS: What is the liability, not

MR. HARRIS: The typical cooperative

interest, liability in the form of

representing the liability, the liability

in this field, I believe, is in the category of

the Board, this would be the in which

MR. HARRIS: Well, to think any that

the Board is a committee, but at the time we do

the Board, I don't know exactly

the Board, you see, we have a

and the Board, we would be

the Board, so the Board is

cooperative is being

the Board, the Board

to all the Board, and

in the Board, we

the Board, the Board

the Board, the Board

MR. HARRIS: I have



1 Mr. Staples?

2 MR. McDONELL: I would suggest in Manitoba and
3 Saskatchewan, where a large part of the livestock is
4 marketed through our organization, that we simply operate
5 auction markets and we have an entirely different
6 situation. An auction fee and a yard fee is charged as part
7 of the refund as a dividend. The farmer brings the
8 animal into the auction ring and the buyer takes it
9 away again.

10 THE CHAIRMAN: You don't buy and sell?

11 MR. McDONELL: No.

12 MR. STEWART: I think I read in a number of
13 these briefs that when you come to allocate patronage
14 dividends in relation to livestock transactions, it is
15 done on a per head basis.

16 MR. McDONELL: Actually in Manitoba we make
17 sure we charge a good price, and in Saskatchewan they
18 have a dividend.

19 MR. STAPLES: On this question ---

20 MR. STEWART: Excuse me, Mr. Staples. Can I
21 confirm that?

22 MR. GIBBINGS: Yes, this is true. It is
23 allocated to the members on the basis of so much per
24 head.

25 MR. STEWART: And you consider that you have
26 bought and resold?

27 MR. GIBBINGS: No.

28 MR. STAPLES: I was going to suggest that one
29 of the largest primary societies in the marketing field,
30 processing, a large one is the Prince Rupert Fishermen's

Mr. Stajkovic

MR. MCWILLIAMS: I would suggest in relation to

the question of the division of the

question of the division of the

question of the division of the

of the division of the

animal into the division of the

away again.

MR. CHATFIELD: You are in the

MR. CHATFIELD: No.

MR. CHATFIELD: I think I would

these factors that when you

division is related to livestock

some on a new basis.

MR. CHATFIELD: I think I

and we should be good

have a division.

MR. CHATFIELD: Of this question

MR. CHATFIELD: I think I

MR. CHATFIELD: Yes, this is

related to the members of the

board.

MR. CHATFIELD: You are

and we should

MR. CHATFIELD: No.

MR. CHATFIELD: I think I

of the division of the

division, and I think



1 Cooperative. I think Mr. Harding can elucidate on this
2 considerably.

3 MR. HARDING: I can file this as an exhibit
4 if you like. It is rules of our Association, and this
5 is typical of similar rules in marketing cooperatives
6 in British Columbia. Just reading from paragraph 7(b)
7 it says:

8 "The member appoints the
9 Association as his agent and as
10 such it shall handle, co-mingle,
11 process, market, store or
12 otherwise dispose of the said
13 products and by-products and
14 the products derived therefrom
15 in such manner as may be
16 determined by the Directors.
17 Title to all said products and
18 by-products and products derived
19 therefrom and the proceeds of
20 the sale thereof shall, at all
21 times remain in the members
22 according to their respective
23 interests, subject, however, to
24 the right of the Association to
25 pledge, hypothecate, sell, convey,
26 assign, process, handle and
27 otherwise deal with said products,
28 by-products and products derived
29 therefrom and the proceeds of
30 said sale according to the terms



1 of this Rule in its name. The
2 Association shall use its best
3 endeavours to get the highest
4 available market price for all
5 products sold but shall not be in
6 any way liable to the member for
7 failure to receive the highest
8 price obtainable".

9 THE SECRETARY: This will be Exhibit 209.

10 ---EXHIBIT NO. 209: Memorandum of Association
11 and Rules of the Prince
12 Rupert Fishermen's Cooperative
Association as amended to
December 15, 1962.

13 MR. STAPLES: If you would like further
14 examples from the marketing of livestock -- and perhaps
15 something turns on this -- I am speaking of the
16 cooperative marketing of livestock, I would like to call
17 on Mr. W.H. McEwen from Moncton who has had a whole
18 lifetime of experience in this very field.

19 MR. McEWEN: Mr. Stewart, in the livestock
20 marketing, like all this cooperative business it grows
21 up differently in different areas and as a result of
22 efforts by people to do something for themselves, but
23 coming to the situation as it is now, Maritime
24 Cooperative Services is the marketing agent for two
25 hog marketing boards; the Nova Scotia Hog Marketing
26 Board and the New Brunswick.

27 The origin of the livestock comes through the
28 livestock shipping clubs that are members of the
29 Maritime Cooperative Services. The hogs are delivered
30 to the Hog Board which, in effect, is delivered to the

of this kind in the future. The
Association will use the best
efforts to get the highest
available market price for all
products sold out of the area of the
any way liable to the market. The
future to receive the highest
price obtainable".

THE SECRETARY: This will be initial step.

- HONORABLE MEMBER: Memorandum of Association
and Rules of the I. I. I.
should then be approved.

MR. WATKINS: If you would like further
explained from the marketing of livestock -- and perhaps
something else on this -- I am, as one of the
representative marketing of livestock, I would like to call
on Mr. W. H. Watson from Houston who has had a whole
lifetime of experience in this way of life.

MR. WATKINS: Mr. Watson, in the livestock
marketing, like all other cooperative business is based
on different kind of different areas and on a number of
efforts by people to do something for themselves, but
return to the situation as it is now, the return
to relative persons is the marketing of the for the
marketing, which the word "cooperative" has marketing
found and the new business.

THE and in of the livestock business and in
the business and in other that the word "cooperative"
Marketing Cooperative Livestock. The idea is to
as the business which is to be as determined to the



1 authority of the agent; the agent, which is Maritime
2 Cooperative Services, disposes of the livestock. They
3 have a contract with the Hog Boards to market on the
4 basis of one and one-half per cent marketing fee, and
5 they do this marketing and make up the returns to the
6 clubs or individuals, and if that fee results in a
7 surplus, it is rebated or proportioned back to the
8 shipping clubs that contributed the business, and they
9 in turn deal with their members. Now, that is hogs.

10 The other livestock are marketed simply on
11 behalf of the clubs who have a marketing board being
12 involved.

13 THE CHAIRMAN: Mr. Stewart, is it not becoming
14 clear that so far as marketing boards are concerned they
15 all operate as agents unless they do some processing
16 of the product? You are not getting anybody who says
17 that they buy and sell so far.

18 MR. STEWART: Well, Mr. Chairman, even in the
19 processing field, as I understood the Prince Rupert
20 situation, they purport to retain title to the goods,
21 notwithstanding that they are processed.

22 MR. STAPLES: I was going to say, to further
23 eliminate this point which Mr. Parker raised, that
24 the distinction is really not whether they process or
25 not. I would like to ask Mr. Martin of the Cooperative
26 Federation in Quebec, who does an extensive livestock
27 marketing business of various types to explain what
28 they are doing.

29 MR. MARTIN: We are a federation of local
30 coops, and most of them are in the activities of shipping



1 cattle to the markets, they are bound by contract to
2 do so, and the local is with the central. When these
3 cattle are received at different places, we have a
4 receiving process for the hogs and cattle, and we have
5 to grade the stock and we have to send some money on
6 what we call a first payment or first return, which is
7 established on what we think is the average value at
8 this time; we process the hogs and it is not easy for
9 a producer to find his hogs, and we selling ham and
10 things of that type. If we receive cattle, we are
11 selling skins, fat, steak and everything, and I don't
12 know if, in fact, we have the title for the guarantee
13 of the operation at some moment, but we have to take
14 the title of the product, but nevertheless we are bound
15 with our members to pay them all the earnings we can
16 get from that procession, and so that is the way we
17 are acting on this, and all the earnings that we earn
18 from the processing operation belong to the producers.

to the subject, they are found by search of the
to be, and the level is with the center of the
which are received as different parts of one, we have a
receiving area as far as the edge and of the, and we have
to grade the rock and we have to be in some way to
what we call a first payment or first return, which is
established on a basis of the fact that we have
this time; we process the rock and it is not a very long
product to find his help, and we believe that the
nature of the type, it is received on a basis of
selling, which, but, seems to be everything, and I think
know it, in fact, we have the right for the product
of the operation of some moment, but we have to take
the title of the product, but nevertheless we are not
when our readers to pay when the conditions are not
get their first impression, and to find it the way we
and looking on this, and all the while a first step
from the processing, which is before the product is



1 So that is the way we are acting on this. All the
2 earnings from the processing operation belong to the
3 producer.

4 COMMISSIONER GRANT: In distributing earnings
5 if you happen to make more earnings in a given year
6 on your hog prices than you did on your beef, the beef
7 supplier would profit from the earnings of the hog
8 supplier, would he?

9 MR. MARTIN: If you can give us a way to
10 say exactly what the earnings could be derived from
11 beef or from pork with completely accuracy, then I
12 could say the processing operations on pork cost so
13 much. We appreciate the difficulty but we return
14 the earnings on the basis of the earnings in each
15 category of stock handled.

16 COMMISSIONER GRANT: In other words,
17 you are able to distribute by way of patronage refund
18 to a hog producer the earnings which you have
19 realized as a result of your hog operation?

20 MR. MARTIN: I should say yes,
21 as long as we can divide, and in that case you may ask
22 the accountants if they can do their job, but as long
23 as we can divide the expenses we are returning to
24 the producer according to what we got from each
25 category of stock.

26 MR. SIMON: Could I ask a question here?

27 THE CHAIRMAN: It depends on what you
28 want to ask.

29 MR. SIMON: Mr. Grant, you mentioned the
30 patronage refund.. Would this be the correct term?



So that in this way we are looking at this. All right.
earnings from the processing operation. I don't know.

Q. Now, in this case, in this case, in this case,
if you happen to make more earnings in a given year
on your hog prices when you did not have them, the
supplier would provide them the earnings of the hog
supplier, would it?

A. MARTIN: If you can give me a way to
say exactly what the earnings could be, I think I can
beef on them with a completely accurate, I don't
could say the processing operation on the hog, I
would. We have the the difficulty but we have
the earnings on the basis of the earnings in each
category of stock handled.

Q. Now, in this case, in this case, in this case,
you are sure to distinguish by way of processing, would
it be a hog producer, the earnings which you have
realized on a number of your hog operations?

A. MARTIN: I don't know. I don't know.
as long as we can distinguish, and I don't know, you can
the earnings in each year, but I don't know, you can
as we can distinguish the earnings we are realizing in
the processor according to what we got from each
category of stock.

Q. Now, in this case, in this case, in this case,
A. MARTIN: It depends on the way you want to
want to say.
A. MARTIN: I don't know, I don't know, I don't know.
I don't know, I don't know, I don't know.



1 MR. JOBIN: I would not say so. I want
2 to correct you, sir, on that term. This would not
3 be by way of patronage refunds. It is bringing back
4 the price of the hog, the final payment in the way of
5 a final payment and not in the way of a patronage
6 refund because they are bound by contract to make all
7 the returns.

8 COMMISSIONER GRANT: Is the producer
9 co-op in the processing field of, say, an abattoir?

10 MR. MARTIN: Yes.

11 COMMISSIONER GRANT: You do or do not
12 have patronage refunds?

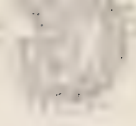
13 MR. MARTIN: Could you repeat that?

14 COMMISSIONER GRANT: If you have a sur-
15 plus at the end of the year, what do you do with that
16 surplus? How do you distribute it? Do you
17 distribute it by way of a patronage refund?

18 MR. JOBIN: It will depend. In Quebec
19 in respect of agriculture it is rather difficult
20 because most of them have both ways. They are at the
21 same time a marketing co-operative and they are also
22 supplying products to the members. At the end you
23 might say it is that way. This money is given back
24 in patronage return, but so far as I am concerned on
25 that part of the marketing co-op, as a marketing co-op,
26 I would say we are bound to make a final payment
27 that is not a patronage return, but it is a payment.

28 THE CHAIRMAN: It is a payment on account
29 of the purchase price?

30 MR. MARTIN: Yes, a payment for the



MR. TOLSON: I would now say no, I would not
to counsel you, sir, or that I would not
to by way of patronage rewards. It is not in the
the price of the bag, the final element in the way of
a final payment and not in the way of a reward for
reward because they are bound by a contract to return
the return.

COMMISSIONER GRANT: Is the Government
in the possession of the right of, say, an attorney
MR. TOLSON: Yes.
COMMISSIONER GRANT: You do not want to

MR. TOLSON: Could you repeat that?
COMMISSIONER GRANT: It is not a right
that at the end of the year, when the law is
enforced. It is the right of the Government
to distribute it by way of a patronage reward.
MR. TOLSON: It will depend on the

in respect of which there is a national law. It is
because most of them have been made. They are not
same time a man being co-operative and that is what
qualifying persons to the reward. In the case of
what I say is that they. That is why I am saying
in patronage reward, but as far as I am concerned
some kind of the carrying out, as a reward for
I would say we are going to make a final payment
that is not a patronage reward, but it is a reward.

MR. TOLSON: It is a reward in the
of the Government.
MR. TOLSON: Yes, a reward for the



1 product, but it is rather difficult because we are
2 acting as an agent to buy, let us say feeds, only
3 as an agent member. We have to keep inventories and
4 so on. Let us take the case of the fishermen's
5 co-operatives. Three months ago they had an annual
6 meeting and they sent back to the fishermen \$200,000
7 but that was not a patronage return, just a settle-
8 ment of the final price of the product.

9 COMMISSIONER GRANT: Thank you.

10 MR. STEWART: As the Chairman has said,
11 one gets the impression here that the number of cases
12 in which title does pass to the co-operative may be
13 rather limited. I wonder if this is a correct
14 impression? Are there commodities or cases where the
15 co-operative does purchase from its member and resells
16 as principal?

17 MR. STAPLES: I am sure there are cases
18 but I think I should ask some of the people behind me
19 to answer this question. The practice seems to vary
20 across the country to some extent. In the dairy
21 business in Canada, co-operatively speaking, the
22 typical co-operative seems to be, to use your term,
23 Mr. Stewart, an agency type of organization but not
24 necessarily confined to this.

25 MR. STEWART: May I proceed on the basis
26 that both types of situation exist?

27 MR. STAPLES: Yes.

28 MR. STEWART: In some cases the co-
29 operative purchases as principal and resells and in
30 other cases it attempts to leave title with the member



1 and acts as a selling agent?

2 MR. STAPLES: That is correct.

3 MR. STEWART: Well now, then, in the
4 cases where the co-operative does act as a principal
5 and does buy from its member, is the normal rule that
6 the co-operative will pay the going price in the
7 area for that particular type of product?

8 MR. STAPLES: In the case where they
9 buy and sell?

10 MR. STEWART: Yes.

11 MR. STAPLES: This would be the normal
12 practice, yes.

13 MR. STEWART: They buy at the normal
14 price, competitive price?

15 MR. MARTIN: They would buy from
16 their members.

17 MR. STEWART: I am talking now about
18 the case where they do buy from their members. I
19 appreciate that you may not buy from your members,
20 but there are apparently people who do and I am
21 confining myself to them. When these co-operatives
22 proceed to resell the commodities they have bought
23 either in original form or in processed form,
24 presumably they seek to obtain the best possible
25 price they can for these products?

26 MR. STAPLES: Yes, that is right.

27 MR. STEWART: And the sales which they
28 make would normally be to people who deal on an arm's
29 length basis with the co-operative?

30 MR. STAPLES: They would be selling in

Q Now as a selling agent?

A Yes, selling.

Q Now, how, being, in your

case where the co-operative does not want to

and does not want to be a member, is it not

the co-operative will pay the selling price in the

when for that particular time of year?

A Yes, in the case where they

buy and sell?

Q Yes, Mr. Chairman?

A Yes, Mr. Chairman?

Q Yes, yes.

A Yes, Mr. Chairman?

Q Yes, yes.

A Yes, Mr. Chairman?

Q Yes, yes.

A Yes, Mr. Chairman?

Q Now where they do pay from their members? I

suppose that you may not pay to your members?

Q But there are apparently people who do not want

to join, is it not, when they are not

proceed to sell the goods and they have to

either in some form or be processed for?

Q Possibly they seek to return the goods and

return them for their goods?

A Yes, Mr. Chairman?

Q And the goods are not

returned to the co-operative?

Q Yes, Mr. Chairman?

A Yes, Mr. Chairman?



1 the usual channels, yes.

2 MR. STEWART: And those channels are
3 ordinarily, I take it, competitive markets?

4 MR. STAPLES: Well, the co-operative
5 meat packing plant would be selling its products
6 perhaps to chain stores and this kind of thing.

7 MR. STEWART: In competition with other
8 packers?

9 MR. STAPLES: Yes.

10 MR. STEWART: Well then, would it
11 be the case ordinarily, Mr. Staples, that these
12 particular marketing co-operatives perform the same
13 merchandising function as does a private competitor,
14 or the commercial company with which it competes?

15 MR. STAPLES: In technical terms I
16 suppose this is correct. It takes the hog, processes
17 it and sells the pork, but its relationship with the
18 producer of the hog is different.

19 MR. STEWART: That may be, but I am now
20 talking about its merchandising function, or its
21 marketing function.

22 MR. STAPLES: Yes, the same.

23 MR. HOUDE: To make it clear I think
24 we must keep in mind what happened was that the
25 producers collectively got themselves together to
26 distribute a service which they could have used
27 through ordinary capitalistic channels.

28 MR. STEWART: Yes, I quite appreciate
29 that the producers formed the co-operatives, but I am
30 concerned now with what the co-operative does, and

the usual channels, yes.

MR. STANLEY:

One thing, I take it, is that the

MR. STANLEY:

most pressing point would be getting the

person to work alone and out of

MR. STANLEY:

Yes

MR. STANLEY:

MR. STANLEY: Well, then, would it

be the case ordinarily, Mr. Stanley, that there

is a certain number of co-operative

merchandise produced in a

or the commercial company with which it

MR. STANLEY: In technical terms?

suppose this is correct. It takes the

it and makes the point, but the relationship with

producer of the and is different.

MR. STANLEY: What may I say, and I am

talking about the merchandising function, or the

MR. STANLEY:

MR. STANLEY:

we must keep in mind what happened was that

producers collectively are the ones who

attribution: a service which they could have

MR. STANLEY:

that the producers of the co-operative

concerned now with the co-operative



1 Mr. Staples has indicated that the co-operative
2 having been formed perform the same marketing or
3 merchandising function as one of the joint stock
4 companies with which it competes, or one of the other
5 organizations with which it competes.

6 THE CHAIRMAN: Before we move from this
7 point could we ask if there is anybody in the room who
8 knows of or operates a marketing co-operative which
9 operates in the simple, and as I always thought, normal
10 way of buying and selling? It seems so far that we
11 have not been able to put our fingers on one.

12 Mr. Martin says he does not.

13 MR. STAPLES: Buying and selling a
14 product not changed?

15 THE CHAIRMAN: I do not care whether it
16 is changed or not.

17 MR. STAPLES: Yes, the First Co-
18 operative Packers of Ontario would be one of those and
19 the United Dairy and Poultry Co-operative would be
20 another one, and my friends behind me may name some
21 more.

22 MR. GIBBINGS: In respect of the
23 operation of the grain handling co-ops they merchandise
24 that portion that is not Wheat Board grain that is
25 purchased outright from the producer at the price which
26 is quoted, and from that point of view the organized
27 pool becomes the owner and then when it sells it on
28 the market it gets the price.

29 MR. JOBIN: So far as the Province of
30 Quebec is concerned I would say we would not have any

Mr. Staggins has indicated that the organization
having been formed previously and was now being
reorganized. Therefore, a part of the joint effort
was to make with which it concerned on one of the other
organizations with which it concerned.

THE CHAIRMAN: I think we have been
point could we say it is not a part of the
more it is concerned with something or something else
operation in the capital, and as I think it is, we
say of how we are working. It seems to me that we
have not been able to get any further on that.

THE CHAIRMAN: I think we have been
process not operating.
THE CHAIRMAN: I think we have been
is changed or not.

THE CHAIRMAN: Yes, the fact that
operate a process of joint work is one of the
the joint work and having to operate the work
another one, and my question is, is it not
that?

THE CHAIRMAN: I think we have been
operation of the joint working group is a
that joint work is not what we are doing
we should be able to get the joint work
is indeed, and I think it is the same
that the joint work is not what we are doing
the method in which we are doing it.

THE CHAIRMAN: I think we have been
operation in which I think we are doing it.



1 types of co-operatives like that because most of the
2 co-operatives are using the contract which is sent out
3 by the Minister of Agriculture which provides that --
4 unfortunately I have not got a copy but I could have
5 a copy for you. I would say that there are 55,000
6 contracts in the Province of Quebec all of the same
7 type, whereby the member binds himself to deliver to
8 the co-operative and the co-operative binds itself
9 to receive the products and to sell them on behalf
10 of the member.

11 MR. STEWART: As an agent?

12 MR. JOBIN: As an agent. So far as
13 this marketing part is concerned it is definitely as
14 an agent.

15 MR. STEWART: Well now, if I could
16 switch for a moment to consumer co-operatives, these
17 are essentially concerned, I take it, with the sale
18 of products which they have purchased, and they sell
19 these products both to members and non-members?

20 MR. STAPLES: Typically, yes, in
21 varying degrees.

22 MR. STEWART: In this regard the
23 consumer co-operatives may differ from the marketing
24 co-operatives. My impression from our discussion of
25 marketing co-operatives is that non-member business
26 was relatively small portion of the total, but in
27 the case of consumer co-operatives would the non-
28 member portion be larger?

29 MR. STAPLES: Here I think we should call
30 on Mr. Fowler again to give us his experience in

types of co-operatives I am that certain kind of co-
co-operative and being the co-operative which is not a
by the Minister of Agriculture which decided that
unfortunately I have not got a way to I would like
a copy for you. I would say, that in the past
countries in the I have not got a copy of the
type, whereby the co-operative itself is not a
the co-operative and the co-operative which is not
to receive the proceeds and to sell the goods
of the member

MR. ELLIOTT: In an attempt
MR. ELLIOTT: As an attempt to do this
this marketing point is concerned in its definition as
an attempt.

MR. ELLIOTT: Well, now, if I could
switch for a moment to consumer co-operatives. These
are essentially concerned, I take it, with the sale
of products which they have purchased, and they are
therefore to be both as producers and consumers.
MR. ELLIOTT: Typically, yes, in
varying degrees.

MR. ELLIOTT: In the case of
consumer co-operatives, as may differ from the co-
co-operatives, my impression from what you have said
marketing co-operatives is that they are not
was relatively small position of the co-op, but in
the case of consumer co-operatives, which are
marketing co-operatives, is that they are not

MR. ELLIOTT: Now, I am not sure
on Mr. ELLIOTT's point to give us his experience



1 western Canada because it is there that consumer co-
2 operatives are the largest.

3 MR. FOWLER: Yes, Mr. Stewart, these
4 are stores in the communities and they are something
5 like the wheat pool set-up. They have a contract with
6 the elevator authorities, and they must take all the
7 business that comes in the door. We do organize
8 drives to get as many members as possible and I think
9 that is a general picture. Perhaps this could be
10 confirmed by our audit department, but I would say
11 95 per cent of the business flowing in the door of
12 the retail co-operatives would be about right.

13 MR. SIMON: I think 90 per cent would
14 be a safer figure.

15 MR. FOWLER: In theory a consumer
16 co-operative could be set up as an agency business
17 but I do not know what would be gained by it. It
18 could be done. On this non-member business income
19 tax is paid at the normal rate. I don't know whether
20 this is the same pattern for every regional wholesale
21 in Canada, but the Federated Organization has no non-
22 member business that it can avoid. It has to have
23 non-member in respect of the by-products of its
24 manufacturing plants like Coke from the refinery, and
25 with our arrangement with the B.C. Department of
26 Natural Resources, we must cut up a mountain and down
27 a mountain; we must cut stuff that our members do not
28 require and this must be non-member business. We
29 do not offer our products for sale to private grocers.
30 I cannot tell you what our non-member business is in

Western Canada because of its large land resources and
operatives are the largest.

MR. TOWERS: Yes, Mr. Stewart, and the
the houses in the communities and they are demanding
like the whole pool system. They have a contract with
the elevator authorities, and they want take all the
business this comes in the door. We do operate
drives to get as many members as possible and I want
this is a general picture. Perhaps this could be
assisted by our audit department, but I would not
50 per cent of the business flowing in the door to
the retail co-operatives would be split right.

MR. STUART: I think 50 per cent would
be a fair figure.

MR. TOWERS: In general a co-operative
co-operative could be set up as an agency business
but I do not know what would be gained by it. It
could be done. On this non-member business income
tax is paid at the normal rate. I don't know whether
this is the same pattern for every region or whether
in Canada, but the Federal Government will have to pay
member business that is not paid. It has to pay
non-member in respect of the proportion of the
member business. I think this is the case in the United States
with our own agency business. The B.C. Government of
the United States, we want out of a non-member and get
a non-member; we want out of that and we want to get
business and that is to be non-member business. We
do not offer our services for sale to business for
I cannot tell you what the non-member business is.



1 Federated. I can only say --

2 MR. D.E. STEWART: Four per cent.

3 MR. FOWLER: Our General Manager says
4 it is four per cent.

5 THE CHAIRMAN: May I ask Mr. Fowler
6 if he would refuse non-member business?

7 MR. FOWLER: At the wholesale level?

8 THE CHAIRMAN: Yes.

9 MR. FOWLER: Yes, we do I think in fact.
10 We do it as politely as possible. We tell them that
11 we are not scaled to serve ~~this~~ kind of trade. We
12 are set up to serve a certain type of co-operative
13 store and a competitive store in the grocery field
14 would want services and credit and we just say
15 no, there are lots of others to do this. If the
16 situation was such that someone could not get goods
17 any other place we might change our policy, I don't
18 know.

19 MR. STAPLES: Perhaps, Mr. Carter,
20 you may feel we are dealing a little too much with this,
21 and maybe I am directing too many of these questions
22 to the representatives of these large organizations,
23 but these are the people who have experience both
24 on the national and provincial level. If you would
25 like a word on how this operates in a community, that
26 is a store on its own, so to speak, I would call on
27 Mr. Harding, because the fishermen in Prince Rupert
28 have an organization with a successful and growing
29 consumer store business. Their experience with non-
30 members would be very interesting, I would say, because



1 that business has been growing quite rapidly.

2 MR. HARDING: Mr. Chairman, as mentioned,
3 I am a member of the Prince Rupert Fishermen's
4 Co-operative, and I might state that the fact we got
5 into the business was almost a by-product of having a
6 fishermen's co-operative. We developed a store in the
7 late thirties to serve the fishermen and to sell them
8 fishing gear and food supplies which they needed in
9 fishing. This store became quite large and during the
10 war years when Prince Rupert was very much of a war
11 town with the limit in the amount of facilities for
12 consumers we found that our store was very popular
13 and we developed a very large business. We could
14 not very well turn it down, being wartime, and we
15 do a large non-member business. As a result during
16 the latter part of the war we were instrumental in
17 getting the Consumers' Co-operative formed which was
18 formed and actually developed and ran two stores
19 alongside our own Fishermen's Co-operative store.

20 In latter years considering the size of
21 our community, some 12,000, we found it was not
22 feasible to have the two co-operative stores running
23 almost in competition to each other. We have combined
24 forces now and we have a very large shopping centre
25 which is jointly owned by the two co-operatives and
26 run that way, so you may be a member of the Fishermen's
27 or Consumers' Co-operative but you can use the
28 facilities of the store.

29 Now, we still find, of course, that we have
30 perhaps more non-member business than Mr. Fowler has



1 suggested for the co-operative in Saskatoon. I think
2 our member business today would run from 75 to 80 per
3 cent, but it is increasing all the time.

4 MR. STEWART: I am sorry, did you
5 say your member business was 75 per cent, or your non-
6 member business?

7 MR. HARDING: Seventy-five to 80 per
8 cent member business, yes.

9 MR. STEWART: In one or two of these
10 briefs I have been struck by the emphasis which has
11 been placed on the connection of the co-operative
12 movement with agriculture and fishing, and what has
13 just been said reminds me of the fact that consumer
14 co-operatives are now appearing in urban centres to
15 an increasing extent. This is a bit of a digression
16 here, perhaps, but does this represent a significant
17 change in the movement and have you any explanation
18 as to how it comes about?

19 MR. STAPLES: The co-operative movement
20 in Canada, Mr. Stewart, has followed a pattern
21 historically which has not been apparent, at least
22 not to the same extent, in many other countries. In
23 Great Britain, for instance, historically the strength
24 of the co-operative movement has been in the consumer
25 field, going back for 100 years or more, of course, as
26 you know. That is where its main strength lies and
27 still lies. The strength of the co-operative move-
28 ment has been in the rural areas; not all farmers and
29 fishermen, but the strength of the movement here has
30 always been in agricultural and fishery communities,

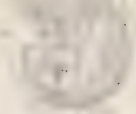


1 and its main strength still is there. Of course,
2 steadily our people have been becoming more and more
3 interested in providing themselves not only with a
4 market for their product but with supplies they need
5 to produce the product. This has been sort of the
6 way of the development. Now more recently in some
7 degree, with the procurement of the things they need
8 for their household; groceries, clothing and household
9 supplies, the co-operative movement is branching out
10 steadily from its earlier business. There are many
11 exceptions to what I am saying and I am dealing in
12 very broad terms with this situation. You will still
13 find typical, or what appears to be now -- at least
14 in many cases -- urban consumer co-operatives, and
15 even supermarkets. Canada is a young country, but
16 you will still find a good deal of its drive and
17 leadership comes from the farm people around the town
18 or farm people who have retired to the town or got a
19 different job, or perhaps the sons and daughters of
20 these people. This is sort of the growth pattern.
21 It does not represent any conscious change in policy
22 on the national leadership of the co-operative move-
23 ment.

24 Has that been of any help?

25 MR. STEWART: Yes, it has. That
26 supplements what appears in Part 7 of the brief of
27 the Federated Co-operatives and it has been ex-
28 tremely interesting.

29 Now, going back to our merchandising
30 policies of consumer co-operatives, when these co-



and its main strength still is there. Of course, steadily our people have been becoming more and more interested in providing themselves with a market for their products, but with a slight delay in the production of the product. This has been said in some way of the development. How more recently in some degree, with the procurement of the things they need for their households; groceries, clothing and household supplies, the co-operative movement is branching out steadily from its earlier business. There are many extensions so what I am saying and I am dealing in very broad terms with this situation. You will still find trouble on what appears to be a -- as I say -- in many cases -- a rather serious co-operative, and even at present. Canada is a young country, but you will still find a good deal of the drive and leadership coming from these people among the -- at least people who have helped to the fact of a different job, or perhaps are some advantage of these people. This is sort of the growth pattern. It does not represent a co-operative scheme in reality on the national industry of the country and the way

has been a part of my being

Dr. SAWYER: Yes, it has. Yes.

supplements what appears in Part V of the order of the Federal Co-operative and it has been the

now, going back to our understanding

colours of common sense and when the



1 operatives do their purchasing I take it that the
2 object of their management is to purchase at the best
3 price obtainable?

4 MR. STAPLES: Yes.

5 MR. STEWART: Now, if a retail consumer
6 co-operative has a choice of purchasing -- perhaps
7 I should rephrase the question. If it is contemplating
8 purchasing, is there anything which would require
9 it to purchase from the wholesale co-operative as
10 opposed to some other wholesale?

11 MR. STAPLES: This is a good question,
12 Mr. Stewart. Again looking at it from an historical
13 standpoint for a moment, this is an age of bigness
14 and the typical successful co-operative in the
15 consumer field, and I am broadly speaking again there
16 in a general way, is a member of a closely knit
17 family of organizations. Each one of these units
18 typically will be autonomous. It will have its annual
19 meeting, elect its own board of directors and decide
20 on its own policy without anybody suggesting this
21 should be interfered with in any way. But, history
22 reveals that co-operatives that just stand off on
23 their own find the going fairly difficult, and so
24 over a generation or so these co-operatives more and
25 more have grouped themselves into what I have called
26 families.

27 In the case of consumer co-operatives
28 the typical local or primary society is a member of
29 the wholesale co-operative. The Federated Co-
30 operatives Limited is the largest of these. There are

operatives do their purchasing I am to the
effect of their management is to purchase at the

MR. STANLEY: Now, is a retail company
co-operative has a choice of purchasing -- perhaps
I should rephrase my question. If it is possible
purchasing, is there anything which would require
it to purchase from one wholesaler or another,
compared to some other method?

MR. STANLEY: This is a good question.
MR. STANLEY: Again looking at it from an historical
standpoint for a moment, this is an age of division
and the typical successful co-operative in the
consumer field, and I am broadly speaking, and
in a general way, is a member of a closely knit
family of organizations. Each one of these units
typically will be autonomous. It will have its own
meeting, elect its own board of directors and so on.
On the one hand, without anybody suggesting it
should be interfered with in any way. Now, this
reveals that co-operatives have their own life and
their own that is going fairly definitely, and no
over a generation or so have co-operatives as a rule
have been merged together into what I would call

the type of co-operative co-operation.
the typical local co-operative society is a member of
the whole co-operative movement. The idea of the
co-operative movement is the fact that the co-operative



1 five or six others in Canada. This relationship is
2 an entirely voluntary one.

3 Now, in some cases there may be some
4 exchange of financing which may lead us into a sort
5 of different relationship in a way. In some cases
6 in order to strengthen the efficiency of the
7 primary society there will be a management agreement
8 with the central organization which is mutually
9 satisfied, but it can cancel that agreement and some-
10 times does.

11 This is another device that is used to
12 tighten the members of the family together, so to
13 speak, but none of these things interfere with the
14 right of the members and the board of directors
15 of the local co-operative to reach its own decisions;
16 certainly the basic decisions that are required for
17 its future existence.

18 MR. LLOYD: Mr. Stewart, I would like
19 to say that after all the local associations own
20 the Federated Co-operatives, the Federated Co-
21 operatives do not own the local associations. Therefore,
22 it is for their benefit, quite logical and natural
23 that the local associations do in most cases, purchase
24 their goods from their own organization, however
25 they are not compelled to do so. Because of the
26 better services they receive and because of the savings
27 they receive, in most instances they do.

28 MR. STAPLES: This is a good point,
29 Mr. Lloyd makes, Mr. Stewart. I tried to indicate
30 that in the historical development which has taken



1 place the wholesalers or centrals were created by
2 the primary societies which, of course, would not part
3 from them. They are part and parcel of the same
4 family organization.

5 MR. STEWART: In practice I take it
6 then that the great part of the purchases made by the
7 retail co-operatives are made from the wholesale
8 co-operatives?

9 MR. STAPLES: Yes, I think this would be
10 true. Maybe Mr. Fowler should comment on that
11 because he would know the answers as far as the
12 prairie provinces are concerned.

13 MR. FOWLER: I should like to refer
14 your question to our General Manager, Mr. Stewart.

15 MR. D.E. STEWART: This is true,
16 Mr. Chairman and Mr. Stewart. We earn our way with
17 our autonomous retail associations that own our
18 organization. We still have to earn our way. We
19 have developed the type of service and supply them
20 with the kind of merchandise and service which they
21 require which, of course, earns their loyalty. At
22 the present time we get excellent support from the
23 retail associations because of that earned right
24 to that loyalty.

25 Now, as to the percentage of their re-
26 quirement, this is pretty difficult to measure because
27 in our particular area the retail sales this year may
28 be around \$160 million whereas our wholesale volume
29 would be about \$100 million. However, we do not and
30 cannot handle every line of merchandise that may be

place the whiskies on shelves were crowded by
the primary selected with, of course, with the
from them, they are now part of a group

MR. STEWART: In your first I think it

then that the great part of the business is in
actual co-operation for the first time in the history

MR. STEWART: Yes, I think that would be

good. Maybe Mr. Stewart should comment on that
because he would know the answers as far as the
practical problems are concerned.

MR. STEWART: I should like to see

your question to one of our friends, Mr. Stewart.

MR. D. E. STEWART: This is a

Mr. Chairman and Mr. Stewart. We want to say that
our intention to the Association that we can do
organization. We still have to learn the way to
have developed the type of service and service that
with the kind of merchandise and service that the
reduce which, of course, seems to be the goal of
the present time to get together people from the
retail associations because of that trend right

Now, as to the importance of their

position. It is not the difficulty of business as we
in our marketing area the retail stores that are
the known \$100 million business and we are going
would be about \$100 million. However, we do not
cannot think even if we are not doing the right



1 required by the individual members, so there is some
2 purchasing outside. I would suggest that all prime
3 commodities that are used by the producer member,
4 the farmer and by the people who grow the commodity;
5 petroleum, feeds, chemicals, twine, farm supplies,
6 lumber and so on; we are approaching the saturation
7 point in regard to the loyalty of the retail co-
8 operative associations.

9 MR. STEWART: Well then, this may be
10 a naive question to ask you, Mr. Stewart, because I
11 imagine I can predict the answer, but when you are
12 selling to retail co-operatives, I take it that you
13 would expect to be able to satisfy them and the price
14 you charge them is a competitive price?

15 MR. D.E. STEWART: Yes, the price must
16 be competitive on the market place. This is one
17 of the fundamental policies of consumer co-operatives.
18 Insofar as possible the price should be competitive,
19 so far as we can tell.

20 MR. STEWART: Then dealing with the
21 retail co-operatives for the moment, I take it that
22 when the management of a particular co-operative is
23 ordering inventory, ordering goods, he goes through
24 the same procedure as a manager of one of his
25 competitors outside the co-operative movement and he
26 does his best to anticipate the demands of his
27 customers for particular goods? He is not in the
28 case of the co-operative in the position that he has
29 advanced orders from members which he goes out to fill?

30 MR. D.E. STEWART: Yes, that is correct.



1 You say "his customers". I would just modify that
2 to "the members of the association". The retail
3 manager of the association and his staff must do
4 everything possible to ensure that the supply of goods
5 is available for the member as required. Now, that
6 means advanced buying because many goods are seasonal
7 and so on. However, in arranging this we encourage
8 the members to make advance bookings for many, many
9 lines of merchandise such as petroleum, lumber, feeds,
10 fertilizers. Many lines of merchandise must be
11 booked in advance of the season in which they are
12 consumed, so in estimating supplies naturally the
13 manager or his staff must contact the individual
14 membership to try to ascertain in many cases what
15 their requirements may be for the ensuing season.

16 THE CHAIRMAN: Let me know when you are
17 at a convenient spot Mr. Stewart, please.

18 MR. STEWART: Yes, Mr. Chairman.

19 When it gets to selling on the part of
20 the retail consumer co-operatives, I take it that the
21 general policy is to sell goods at prevailing prices?

22 MR. D.E. STEWART: Yes.

23 MR. STEWART: When I say "prevailing",
24 in that regard, I mean competitive prices.

25 MR. D.E. STEWART: Yes, as nearly as can
26 be ascertained, Mr. Stewart.

27 MR. SIMON: May I make a comment here?

28 MR. STEWART: Yes.

29 MR. SIMON: One of the things that
30 creates some difficulty when we are trying to compare



1 our wholesale operating costs with other wholesales
2 that are non-co-operative is the fact that many of
3 our members will come in and place an order for
4 sometimes new items; items which are not ordinarily
5 stocked, either by the local association or by the
6 wholesaler, and sometimes are in quantities that are
7 not touched by the wholesaler, and we do endeavour
8 to do this at the wholesale level and we also endeavour
9 to do smaller than normal pack deliveries at the
10 local associations. Thus we are involved in whole-
11 sale because you realize that this sometimes does
12 increase our costs to the point where our management
13 in the wholesale complains because of this factor that
14 we are trying at the wholesale level to satisfy
15 individual demands. Now, percentagewise this is
16 not very heavy but nevertheless it is a factor.

17 THE CHAIRMAN: Before we move on might
18 I just inquire as to the meaning of the word
19 "competitive" as used by you? I presume it means
20 in relation to one's competition; neither higher nor
21 lower prices but equivalent, or the same price?

22 MR. STAPLES: This is correct, but as
23 Mr. Stewart points out, the going price is a little
24 hard to ascertain under modern conditions of
25 merchandising.

26 THE CHAIRMAN: The attempt is not to
27 undersell the competing stores particularly?

28 MR. STAPLES: No, the attempt is to sell
29 at the going price.

30 THE CHAIRMAN: Yes.



1 MR. STEWART: Than the competitors of
2 the retail co-operatives are, to the extent that
3 they exist in a particular community, ordinary
4 retailers, is that correct?

5 MR. STAPLES: Yes.

6 MR. STEWART: Again purely now in regard
7 to merchandising functions performed, would it be fair
8 to say that the merchandising function which is
9 performed by the retail co-operative is the same
10 as that which is performed by its retail competitor?

11 MR. STAPLES: I think the answer is yes,
12 but you can scarcely overlook the different relationship
13 with the customer because, Mr. Stewart, when one of
14 the competitors of the co-operative, and perhaps one
15 of the best examples I can think of, might spend a
16 good deal on advertising in the orthodox sense of that
17 word yet the co-operative might spend little on
18 advertising and more on consumer education or
19 information to the members, or member meetings and
20 this sort of thing. In a way this is not merchandising,
21 but it is pretty closely related to it.

22 MR. STEWART: In any event, if I were
23 in Saskatoon and went into a co-operative retail as a
24 non-member I would be treated in exactly the same way
25 as a member of that co-operative who also came in?

26 MR. STAPLES: Of course, except for one
27 small thing, which appears to be small. When you
28 were taking out your groceries unless the girl
29 recognized you at the cash register you would be asked
30 for your member number.



1 MR. STEWART: If I just said that I
2 was not a member, then what?

3 MR. STAPLES: Then you pay the price
4 and disappear, but the price is the same as if you
5 were a member.

6 mr. McDONELL: Mr. Chairman, there is
7 one point in this regard that is of value. The
8 relationship of the member and the manager is somewhat
9 different in that the member says what he wants and
10 if he doesn't get the type of product that he wants
11 he makes darn sure he gets a new manager whereas
12 the private firm would not pay any attention to him
13 unless he was really on his toes looking for
14 business.

15 MR. STEWART: Just to be sure I under-
16 stand you there, are you suggesting that it would not
17 be good business for an ordinary retailer to pay a
18 great deal of attention to what a customer wanted?

19 MR. McDONELL: Yes, but there is normally
20 no set form for the customer to tell him in no un-
21 certain terms, that is the private retailer, of the
22 product he wants and how he wants them whereas in a
23 co-operative, particularly in a rural co-operative,
24 this is a very important factor.

25 MR. STEWART: Well, you have more
26 knowledge of this than I have but I must say I find
27 it surprising, particularly in a rural community,
28 if I were a shopkeeper, for example, and found that
29 one of my steady customers was not satisfied with
30 the line I was carrying that I would not pay attention



1 to that customer. I should have thought that I
2 would always be conscious of the fact that the
3 customer had a very effective sanction. If he took
4 a dislike to my merchandising policies he could
5 go some place else.

6 MR. STAPLES: If he had some place else.

7 MR. STEWART: He might have the co-op.

8 MR. STAPLES: That is why they have them
9 both side by side.

10 THE CHAIRMAN: Mr. Stewart, I think we
11 will adjourn now for perhaps an hour and a half, until
12 2.15.

13
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15 ---Luncheon adjournment.
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--- On resuming at 2.15 p.m.

THE CHAIRMAN: It is now 2.15. Mr. Stewart, are you ready?

MR. STEWART: Yes, thank you, Mr. Chairman.

THE CHAIRMAN: Mr. Staples, you are ready?

MR. STAPLES: Yes.

MR. STEWART: Now, gentlemen, before the break we were talking about the merchandizing operations of co-operatives.

There is one point which I would like to refer to in part under that general subject and in part in connection with the capitalization of co-operatives. Theoretically I suppose it would be possible for co-operatives to use their pricing policies to assist in the raising of capital? What I have in mind in this respect is this, that if we think of the producers co-operative it might pay less to its members for their produce, and in the case of the consumers co-operative it might charge its customers more for what it sold at the outset. That could mean that the spread in each case between the buying price and the selling price would be increased; and that spread could be used to increase capital by distributing the spread in large part through credits to members' accounts rather than in cash.

Now, could I ask whether this is a



1 recognized technique in the co-operative movement for
2 increasing capital?

3 MR. STAPLES: I would think it would
4 be helpful if you would phrase the question with respect
5 to the consumers co-operative...

6 MR. STEWART: Let me try to give you
7 a very simple example. You have a consumers co-
8 operative. Let us suppose that we are dealing with
9 toothpaste. It may be that the going rate for
10 toothpaste is 28 cents or 29 cents. If a co-operative
11 charges 29 cents for its toothpaste which it sells to
12 its patrons rather than 28 cents there is an extra one
13 cent there and this will go to swell the patronage
14 refund which has ultimately to be paid; but if the
15 patronage is paid not in cash but at least to a considerable
16 extent through application to the members' account,
17 the payment is deferred and then the co-operative is
18 able to increase its capital for a period.

19 MR. STAPLES: I understood the question.
20 It was just that perhaps the answer is different in
21 the case of the two different types of co-operatives.

22 Let us take the consumers co-operative.
23 I suppose the answer to your question is in the affirm-
24 itive, since you made it a theoretical question, but in
25 actual practice I think the people who operate co-
26 operatives and who are here would say that they wouldn't
27 last very long if they tried to charge more than the
28 going price as a permanent policy.

29 Mr. Fowler may have a comment to make
30 on this question.



1 MR. FOWLER: I think, Mr. Chairman,
2 the market price is the one that I would prefer. It
3 is a fair statement, I think, that that is the practice
4 which has been in existence in countries all over the
5 world for hundreds of years; and if the going price
6 is exceeded the difference is put into the patronage
7 refund. If the co-operative needs capital it can,
8 of course, get it from its members temporarily, or,
9 on the other hand, it can get it from a bank. It
10 can get it from its members temporarily by suggesting
11 to them, or asking them, of their own volition, to
12 prepare a bylaw, or by some other method, to open a
13 capital drive.

14 The method of obtaining it through
15 these patronage loan laws is certainly a very efficient
16 one and a very equitable one, and this is why I think
17 it has been adopted by co-operative people who are
18 anxious to maintain its pattern. If you don't do it
19 that way you have a lot of expense and all that sort
20 of thing.

21 Some of my colleagues may wish to add
22 or detract from that, but I would say, as Mr. Staples
23 said in answer to your question, that theoretically
24 the answer is Yes and practically the answer is No.

25 MR. STEWART: It might be practical
26 to this extent that surely in a consumers co-operative
27 what is the going rate, or the going price, must be
28 open to debate or argument to some extent?

29 MR. FOWLER: Well, yes. That is the
30 most difficult problem of merchandizing, whether it



1 is wholesale or retail, as to how it is established.

2 This is one place where I think the
3 co-operative has an advantage over the private
4 competitor, in that the members of the co-operative
5 are the policemen. I have gone into many co-
6 operatives, and, as I say, they check on that; and the
7 members come in and report on it. I have some data
8 here on that. Some of them send members out every
9 week with a list of a dozen articles, and they buy
10 the list of goods. The member goes to every store
11 and gets one. To illustrate the point, in store A
12 an article in this list of goods was \$36.33, in store B
13 it was \$37.02 and store C it was \$36.77. Two of
14 these are over \$36 and one is over \$37. These are
15 three major chains in Canada. The co-operative was
16 35.65.

17 One of the reasons that this is done
18 is the claim that members make in that they say
19 "You never have any specials. The other store gives
20 us 5 pounds of butter if we purchase \$10 worth of
21 groceries." This is what we call a gimmick; and in
22 store A the 36.33 is also 68 cents above what is
23 included in these free items; which showed that this
24 person was fooled. They thought they were getting
25 butter for 20 cents. Actually, they were paying more
26 than they would have at their own co-operative store.

27 They do that every week; and everybody
28 in the market knows that they have been supplying the
29 three major chain stores.

30 MR. STEWART: Let me ask a somewhat



1 related question Mr. Fowler. I will abandon for
2 the moment the question in connection with whether
3 consumers co-operative are able to use prices as a means
4 of raising capital. But take the manager of the store
5 you mentioned. He may well, I suppose, for competitive
6 purposes, arrange his selling price at less than \$36.
7 This one, you say, was selling for \$35.65. Would
8 there not be a temptation to the manager to sell that
9 article not at 36.65 but at \$35.95, knowing that he
10 was still under his competition, but also recognizing
11 that the higher the price charged in the first instance
12 then the better fellow he could make himself out to be
13 when the patronage dividend came around, because he
14 would have increased his apparent profit from his
15 operation.

16 MR. FOWLER: Frankly, I think there
17 is a little tendency to get as close as you can.
18 You get no benefit for your members by unduly reducing
19 the price.

20 I think you are from Scottish ancestry.
21 I know one Scotsman who said to me:
22 "They will damned soon forget what you have gi'en
23 already, but they will remember for a long time what
24 you ain't gi'en them yet"! In other words, one of
25 our arguments you will find is that in the co-operative
26 movment there is a difference of opinion. My own
27 experience has been, over 30 years, that the best way
28 to settle the merits of a co-operative is through having
29 one's operation set up in a way that this is a way of
30 life, and it is a successfully run business.



1 Therefore, I think, in answer to your
2 question, that they will decide that we must have
3 competitive prices and we must be able to demonstrate
4 their economy; that the savings are incidental to our
5 method of merchandizing; that they pay off; and when
6 you do that you do it through the patronage refunds.
7 This is visual evidence that the co-operative is a
8 good thing.

9 MR. STEWART: Let us switch from
10 the consumers co-operative in those two respects to
11 the marketing co-operative.

12 MR. STAPLES: This is not so simple.
13 I will need some help on this one.

14 There are two types of marketing co-
15 operatives. There is the one that buys and sells
16 and there is the other which is the so-called agency
17 type.

18 There is no doubt in my mind that the
19 marketing co-operative that buys and sells is operated
20 at competitive price levels. It certainly could
21 not operate any other way.

22 If any of my friends think I am wrong
23 on that you should hear from them.

24 MR. STEWART: In other words, it
25 would simply not be practical politically to pay less
26 than the going rate to the customer.

27 Have none of them got a captive market,
28 Mr. Staples?

29 MR. STAPLES: For the end product?

30 MR. STEWART: No, for...



1 MR. STAPLES: A captive source?

2 MR. STEWART: Yes?

3 MR. STAPLES: No; they deal with their
4 members primarily; but certainly the members will
5 often check with the competitors.

6 MR. STEWART: You don't know of cases
7 in isolated areas where a man really has no choice but
8 to join the market through his co-operative?

9 MR. STAPLES: Well, it is quite possible
10 this happens. It may be a fishing community, for
11 instance, or that sort of thing; but I don't think it
12 happens much.

13 MR. STEWART: What I am getting at is
14 this: Would it not, in such circumstances, be a
15 recognized technique for adding to your capital, to
16 increase the spread between what you paid your customer
17 and what you are able to get for the produce?

18 MR. STAPLES: No; the answer is that
19 it would not be a recognized technique.

20 MR. STEWART: I put that question to
21 you on the basis that the objective was to increase
22 capital, but if the objective was not to increase
23 capital but simply to maximize profits during the
24 particular year through increasing the spread between
25 what was paid and what the article was sold for, is this
26 something that may well happen in particular cases?

27 MR. STAPLES: Well, the whole principle
28 is one where you operate at the going price, to serve
29 the member; in this case giving him marketing service
30 at its proper cost; and it would be highly exceptional



1 for the co-operative to try to pay the member less than
2 he would get somewhere else.

3 I would like to call on Mr. Gibbings to
4 make a few comments here.

5 MR. GIBBINGS: Insofar as grain
6 is concerned you will be aware that the operating
7 machines are established first of all by the Canadian
8 Wheat Board for the grains that are handles by the Board
9 and by the Grain Commissioners for the grains which are
10 not, so that there is no possibility of any
11 manipulation in that field. The competitive situation
12 in this field just prevents this from happening.
13 They must be competitive in these factors or they
14 don't get the grain and they are out of business.
15 But on the assumption that a member might decide to
16 use that technique I assume that it could be done
17 in a practical way. But they could be very easily
18 frustrated, and, in fact, likely would be frustrated
19 in their efforts when it came to the time when the
20 surplus was re-distributed; because the members
21 decide how it is going to be done. If it could be
22 done -- and I have submitted that it could from a
23 practical point of view, the objective might not be
24 reached, because the members are going to make the final
25 decision.

26 MR. STEWART: There is the possibility
27 that the amount available for distribution might be,
28 say, 50,000 dollars, and by adopting this particular
29 technique the amount available could be increased
30 from \$50,000 to \$55,000 so that the total patrons



1 dividend would go up by 10%; and it may well be that
2 the member would not accept in cash the same proportion
3 of the \$55,000 that he would be prepared of the \$50,000?

4 MR. STAPLES: Of course, he might
5 decide to take it all. The decision is his. How
6 much is in cash is the member's decision.

7 MR. STEWART: Well, I have no personal
8 knowledge, of course, of how your operations are carried
9 out. It simply struck me that these techniques are
10 theoretically available in your operations and I was
11 interested in inquiring whether or not they are used
12 to any extent; and I take it that the concensus of
13 opinion here is that they are not used?

14 MR. STAPLES: That is right.

15 MR. STEWART: Well, now looking at
16 these marketing and merchandizing activities which the
17 co-operatives carry out as a whole and comparing them
18 with the corresponding operations which are carried out
19 by the competitors of the co-operatives, it would seem
20 to me that there is no essential difference, first of
21 all, in the way the co-operatives purchase products,
22 to the extent that they do purchase them, and the way
23 they sell them to -- well, I was going to say: To
24 the extent they sell them. But whether they are
25 marketing co-operatives or consumers co-operatives they
26 do sell products. Have you any comment on that?
27 Is there any essential distinction in the buying and
28 selling process?

29 MR. STAPLES: No; there is no essential
30 difference.



1 MR. STEWART: And by the same token
2 it has appeared to me, as we have gone along here, that
3 there is no essential difference in the pricing policies
4 of the co-operative on the one hand and its competitors
5 on the other.

6 MR. STAPLES: Mr. Stewart, in your
7 previous question you said "The co-operatives who
8 purchase," and I took this to apply to the so-called
9 agency type which has rather a different system.

10 MR. STEWART: On the agency basis --
11 I am glad you mentioned this -- when the function of a
12 co-operative is not to purchase but to act as an agent
13 for its customer and provide, perhaps, certain services
14 for him, there, again is there any essential difference
15 between their handling procedures -- the agencies'
16 procedures -- and those which are provided by its
17 competitors?

18 MR. STAPLES: I think, in the typical
19 case, there would be an essential difference; leaving
20 out for the moment the amount that is involved here;
21 but the co-operative doesn't buy the product at all
22 in the ordinary sense. In other words, what is paid
23 to the member for his milk, we will say, is not a price;
24 it is an initial payment. This, I think, is the
25 essential difference in the terms you are using.

26 MR. STEWART: Let us compare...

27 THE CHAIRMAN: Mr. Stewart, you are
28 being offered assistance from Mr. Houde.

29 MR. HOUDE: I want to be sure that
30 you are questioning about the essential differences in



1 function. I was thinking in terms of driving a car.
2 When I drive my own car I am driving the same as any
3 taxi driver drives, but we are not doing it for the
4 same purpose. I drive for myself and he drives for
5 his own living. I am trying to find out what you
6 seek with this question of function.

7 MR. STEWART: I am not directing
8 myself, Mr. Houde, to the question of for whose
9 benefit these operations are being carried on. I quite
10 concede that the benefit of the operations of the
11 co-operative goes to the members of the co-operative,
12 and in that respect there is a distinction between a
13 co-operative and the ordinary corporation. In the
14 ordinary corporation the benefit of its activities
15 ultimately goes to the shareholder. I am well aware
16 of that. I am on, I think, another point.
17 Granted that there is a distinction between the
18 beneficiaries of the operations, in what respect are
19 the operations themselves different? Mr. Staples
20 was saying just now that there may be an essential
21 difference. In the case of the agency co-operative
22 I quite agree that there is a difference between
23 the agency co-operative and the marketing co-operative -
24 that is, the title may not pass in the case of the
25 agency, whereas it does in the case of the marketing
26 co-operative which buys the goods. But what I am
27 seeking to compare, really, is... Let us take the case
28 of the Wheat Pools on the one hand and one of the
29 line elevator companies on the other. Are the
30 services -- the handling services and other services -



1 provided by the Wheat Pools different in any way from
2 those which are provided by the line elevator companies?

3 MR. GIBBINGS: We try to make them
4 different.

5 MR. STEWART: What is the essential
6 difference? You may strive to be more efficient.

7 MR. GIBBINGS: Yes; and supply a
8 better service. But you are correct in that
9 essentially we are performing the same function.

10 MR. LAIDLAW: The essential difference
11 is that in a co-operative transaction, whether it is
12 in buying or selling, it is not a complete transaction
13 at the time; whereas the buying and selling in the
14 other context, from the point of view of the person,
15 the client, or the customer, it is a complete trans-
16 action; and that is the essential difference.

17 MR. STEWART: Well, yes; there again
18 I think we are back on the question of who ultimately
19 benefits from the operation that is carried on.

20 THE CHAIRMAN: I didn't quite under-
21 stand the meaning of "complete".

22 MR. STEWART: What I think was being
23 suggested is that in the case of the wheat pools, for
24 example -- and let us deal with the Canadian Wheat Board
25 what the farmer gets when he tenders his wheat at the
26 elevator is an initial payment and he ultimately gets
27 other payments.



1 Perhaps I had better take another example. Let us take
2 a produce which is not complicated by the existence of
3 the Wheat Board.

4 MR. LAIDLAW: Fish would be an easy one.

5 MR. STEWART: Let us take the case of a
6 fishing co-operative where the fish are actually
7 purchased by the co-operative and are resold. There
8 the member gets a price and when the sale occurs he
9 will ultimately get another payment. If this is done
10 on an agency basis, I think your point was that what
11 he gets when his fish are delivered to the co-operative
12 is in the nature of an initial payment and ultimately
13 he gets another payment. Is this a distinction
14 between the agency type and where the co-operative acts
15 as a principal?

16 MR. JOBIN: Even when you buy it is not
17 a complete transaction because there is a patronage
18 dividend at the end.

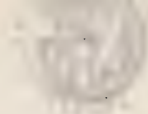
19 MR. STEWART: I think this gets down to an
20 analysis of just what this patronage dividend is in
21 this case where the co-operative has acted as a
22 principal. Is it reasonable, where the co-operative
23 has acted as a principal, to say that the amount which
24 is received at the end of the year or after the end
25 of the year in respect of the operations for the year
26 is another payment on account of the sale price to the
27 member; have we not got to the point where that is
28 simply a distribution of a portion of the over-all
29 profit of the co-operative?

30 MR. McMASTER: Let us take a producer



1 co-operative which operates in the manner you suggest;
2 that is, buys and resells. Even at the time of the
3 buying there is an underlying contractual obligation
4 on the co-operative to deal with the result of the
5 transaction as it moves on to the ultimate purchaser
6 of the goods in a manner still accountable. It is
7 not a final settlement of what is going to be paid.
8 There is really an underlying agency contract --
9 not an expressed legal one perhaps, but there is an
10 underlying agency contract which does not exist with
11 the merchant who buys and sells.

12 MR. STEWART: It may be that there is a
13 distinction here between what happens in practice and
14 the strict legal position, but it does seem to me that
15 when you have a co-operative with, let us say 500
16 members all of whom are selling a particular product
17 for resale, it is granted that under the terms of
18 the by-laws and other governing documents the co-
19 operative is going to account to the particular member
20 for everything that the co-operative ultimately has
21 available for distribution in respect of its
22 operations for the year. It is going very far to
23 say that what the member gets in the following year
24 by way of a patronage dividend is strictly a part of
25 the sale price of his product. Let us suppose he
26 sells a particular shipment for \$100, at that time
27 he has alienated his interest in that produce; but
28 he knows that in due course after the co-operative
29 has finished dealing with his produce and everybody
30 else's produce that if circumstances permit he may



co-operative which operates in the same way as the
that is, buys and resells. Even at the time of the
buying there is an underlying contract of sale, and
on the co-operative to deal with the sale of the
resale, as it moves on to the private market
of the goods in a market still continuing. It is
not a final settlement of what is going to be paid.
There is really an underlying, never completed -
not an expressed legal contract, but there is a
underlying legal contract which does not exist until
the merchant who buys and sells.
Mr. St. John. It may be that there is a
distinction here between that contract in private and
the normal legal position, but it does seem to me as
when we have a co-operative which let us say 500
members all of whom are selling a particular product
for resale, it is granted that under the terms of
the by-laws and other governing documents the use of
co-operative is going to be used to the particular
top everything that the co-operative ultimately has
available for distribution in respect of the
operations for the year. It is going to be used
and that what the member gets in the following year
by way of a percentage dividend is really a part of
the sale price of his product. Let us suppose that
sells a particular quantity for \$100, a share of
he has obtained his interest in that product for
he knows that in the course of the year after the co-operative
has finished dealing with his product and everything
is done for the year, the co-operative will have



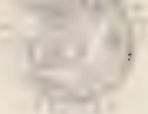
1 get a further payment which may amount to 2 per cent
2 or whatever it may be of his sale price of \$100. But,
3 is this not a distribution of an over-all profit
4 rather than a distribution made pursuant to the
5 charter and by-laws, one which the co-operative may
6 be required to make? It seems to me that is
7 arguable whether it is part of his sale price. It
8 seems to me it may be really, when you get down to
9 it, a distribution of his share of the profit.

10 MR. McMASTER: But it is distinctive to
11 the transaction when he sells to a member who is
12 a dealer in the product, because when he sells to the
13 dealer he has no prospect of anything further. I
14 suggest in the case where he sells in a buy and sell
15 arrangement with his co-operative he has either an
16 expressed or implied understanding, if not a contract,
17 that he may expect something more if a balance
18 results in the sale of that product.

19 THE CHAIRMAN: Whatever he gets later on
20 may or may not be related to a particular trans-
21 action. If it is not related to the particular
22 transaction, it is more in the nature of a profit, I
23 would think, than the adjustment of a price.

24 MR. McMASTER: There is an element of
25 pooling in this which is agreed to in many co-operative
26 enterprises, and that is where you have products of
27 similar quality.

28 MR. STAPLES: It seems to me we are not
29 giving sufficient emphasis to one basic consideration
30 here; that is the reason the member set up this



and a further payment which may amount to 2 or 3
on whatever it may be of his sale price of 100
is this not a distribution of an over-10 profit
rather than a distribution made pursuant to the
charter and by-law, one which the corporation may
be required to make? It seems to me that it
is a distribution of his share of the profit.
seems to me it may be really, then you get down to
a distribution of his share of the profit.

MR. MEMAN: But in its distribution to
the corporation when he sells to a dealer who is
a dealer in the product, because when he sells to the
dealer he has no prospect of anything further. I
say that in the case where he sells in a box and
arrangement with his co-operative he has a contract
expressed or implied understanding, it has a contract
that he may expect something more in a balance
relative to the sale of that product.

THE CHAIRMAN: However, no goods are
may or may not be related to a particular
action. If it is not related to the particular
transaction, it is more in the nature of a gift. I
would think, then, the statement of a gift.
MR. MEMAN: There is an element of
going to this which is added to the gift, and
enterprise, and that is where you have a contract
MR. MEMAN: It seems to me that the
going, which is added to the gift, and
enterprise, and that is where you have a contract
more, that is the reason the contract is not a gift.



1 co-operative in the first place. The reason it was
2 set up in the first place in many instances was to
3 get a marketing service at its proper cost. They
4 wanted to take their product, shall we say, further
5 along the road to the consumer and save themselves
6 some money in doing it and eliminate, as they see it,
7 some of the costly middleman services. Whether they
8 get it in the first payment or in the last payment,
9 it really does not matter very much. It seems to me,
10 Mr. Stewart, that when you used the term "agreement",
11 you really answered the question, because the co-
12 operative does not have this in its own right.

13 MR. STEWART: This is something we will
14 have to consider further at a later stage. The
15 question is whether it is the profit of the co-
16 operative which is then distributed or the profit of
17 the members right through. I do not want to prolong
18 that point.

19 Let me go back to what I was attempting
20 to do earlier and see if I can put it to you in this
21 way. Leaving aside for the moment the question of
22 pricing, when a marketing co-op buys a product and
23 resells it, let us assume there may or may not be
24 some intervening processing, if buys it in the same
25 way as one of its competitors; it processes in the
26 same way as its competitors and sells it in the same
27 way as its competitors. Are we agreed on that?

28 MR. STAPLES: This could happen, yes.

29 MR. STEWART: When it comes down to prices
30 it is going to pay for the product it buys, then

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set up in the first place in many instances and in
not a marketing service at the proper cost. They
wanted to make their product, and they wanted
along the road to the consumer and save them some
some money in doing so and eliminate, as they see it,
some of the costly wholesale services. When they
set it in the first payment on in the first payment,
it really does not matter very much. It seems to me
Mr. Starnes, what when you make this kind of payment,
you really answered the question. I mean the con-
operator does not have this in its own mind.

MR. STARNES: This is a question of will.
have to consider whether or not a law is needed. The
question is whether it is the will of the op-
erative which is then first in mind or the profit of
the members right through. I do not want to prejudge

but we go back to what I said at the beginning
to be satisfied and see if I can put it to you in this
way. Leaving aside for the moment the question of
marketing when a marketing co-op pays a member
in cash, let us assume there was no cash. Let us
some intervening marketing, it says it in the first
way as one of the objectives of the program in the
same way as the co-operative and selling in the same
way as the co-operative. And we ended on that.

MR. STARNES: This could happen, I think.
MR. STARNES: What is your view on this?
I am going to pay for the product in cash.



1 subject to this point we have just been talking about
2 as to whether or not the final payment is a further
3 payment or actual sales price or distribution of
4 profit, its initial price is determined in the same
5 way as its competitors. When it comes to sell it
6 sells in the open market for the best price it can
7 get.

8 MR. STAPLES: Yes.

9 MR. STEWART: And when it comes to sell
10 it seeks to make the maximum spread it can on what
11 it has sold. Do you agree?

12 MR. STAPLES: Yes.

13 MR. STEWART: I suggest to you that
14 in the case of the consumer co-op -- and I am coming
15 back to the other type of marketing co-op -- in the
16 case of the consumer co-op the situation is exactly
17 the same, that it buys; it may buy basically from a
18 wholesale co-op, but it does buy in the same way as
19 its competitors; it sells in the same way as its
20 competitors; its pricing policies are the same or at
21 least related to those of its competitors and it
22 naturally seeks to buy as cheaply as possible and make
23 the maximum profit just as its competitors do. Is
24 that a fair statement?

25 MR. STAPLES: I would think so.

26 MR. FOWLER: There is a lot of
27 similarities and some of them have been outlined.
28 They may have the same make of cash register; we may
29 assume a lot of things are similar; a lot are. I
30 would like to refer to one or two things in our brief;

subject to this point we have just been talking about
as to whether or not the 100 percent is a fair
payment of actual sales minus on distribution of
profits, the initial price is determined in the same
way as the competitors. When it comes to cost
sales in the open market for the best of the
get

MR. STEPHENS: Yes.
MR. STEPHENS: And when it comes to this
it needs to have the maximum amount it can get
it has sold. Do you agree?
MR. STEPHENS: Yes.
MR. STEPHENS: I suggest to you that

in the case of the consumer co-op -- and I am coming
back to the other type of marketing co-op -- in the
case of the consumer co-op the situation is exactly
the same, that it buys; it may buy partially from a
wholesale co-op, but it does buy in the same way as
its competitors; it sells in the same way as its
competitors; its pricing policies are the same as its
least related to those of its competitors and its
basically needs to pay as cheaply as possible and to
the maximum profit just as the competitors do, as
that is the statement

MR. STEPHENS: I would think so.
MR. WOLFE: There is a lot of
anti-trust and some of them have been
they may have the same kind of cash policy as
assume a lot of things are different; a lot of
would like to refer to one of the things is on



1 the first is Appendix I. On the question of
2 economics there are things that we have set out in our
3 advertising and some of our competitors are copying
4 these. One of our men who belongs to an advertising
5 club had an advertising man come up and say that
6 co-ops are leading the way. In the consumer topics
7 we are trying to bring saneness into merchandising.
8 I know that this is not universal. We have a problem.
9 We have been painted as the big bad wolfe, that we
10 are running things, and sometimes I wish this was true.
11 We have given one or two instances and we can give
12 more where we have introduced a product that is
13 better value for the consumer and means less margin
14 and less volume for the co-op. I think this is a
15 very important difference in the operation. Our
16 motive is different. When I was manager of a
17 refinery I bought the lubricating oil. I did not
18 know too much about it, so I went to university and
19 found out what was good oil. I bought the best oil
20 I could buy with, of course, the best technical
21 information I could obtain. I could have purchased
22 a lot of oil with almost similar specifications and
23 at a lower price and the member would not have found
24 out about it too quickly; but he would have found out
25 in time and I would have been in trouble. All our
26 buyers have that sort of incentive. They keep out
27 of trouble by buying and getting the best volume they
28 can.

29 We had an interesting experience in
30 respect of feed manufacturing. We had technicians who



the first is Appendix I. On the question of

advertising there are things that we have not yet
advertising and some of our competitors are doing

these. One of our men who belongs to an advertising

club had an advertising man come up and say that

co-ops are leading the way. In the summer of 1961

we are trying to bring business into membership

I know that this is not universal. We have a number

we have been as good as the big bad wolf, and we

are running things and sometimes I think that we

have given one or two instances and we can give

more where we have introduced a product that is

better value for the consumer and more than margin

and less volume for the consumer. I think that as a

very important difference in the operation of the

active is different. When I was member of a

committee I don't see the difference at all. I am not

know too much about it, so I won't be making any

found out what was good or bad. I hope the best of

I could buy with or without the best business

information I could get. I could have information

and of our almost entire membership and

in a lower price and the member would not be

not about it was different but he would not be

in time and I would have been in trouble. And

others have had some of these. They have

of course by having the good and the bad

of course by having the good and the bad

of course by having the good and the bad

of course by having the good and the bad

of course by having the good and the bad



1 were animal husbandry men; they liked animals and
2 wanted to get the best feed they could for us. We
3 had the pleasant experience of a feeder coming to us
4 after exhaustive tests of feed and saying to us
5 that they got the best gain per pound from our feed.
6 For this reason and because our buyers and our people
7 cannot possibly profit by the kind of practices we are
8 trying to lead away from, they put out a good feed,
9 and this is the result.

10 I get kind of wrought-up on this
11 assumption that there are a lot of similarities. Then
12 there is another thing; this question of the code
13 of ethics. There are such things as these knives
14 and forks in the soap box. We just have to sell
15 some of them, but we have turned down a lot of these
16 deals. In some of the co-op stores it is thought
17 that these things are really too rotten to be handled.

18 MR. STEWART: This has been very
19 helpful, but I take it that what you are saying is
20 you consider that the techniques or methods you
21 refer to constitute good merchandising basically?

22 MR. FOWLER: Yes. If the
23 competitors adopted the same methods and techniques
24 they would probably do better in the long-run. The
25 only point I have been trying to explore here is
26 whether essentially there is any real difference
27 between the operations of a retail co-operative and
28 one of its competitors.

29 MR. BLAIR: Possibly a lot of the
30 difficulty here is in defining the word "essential".

were animal husbandry men; they loved animals and
wanted to get the best feed they could get. They
had the pleasant experience of a better animal
after exhaustive tests of feed and sawing to find
that they got the best gain per pound from the best
feed. This reason and because they buyers and sell
cannot possibly benefit by the kind of practices we
trying to lose away from, they put out a good feed
and this is the result.

I get kind of wrought-up on this
assumption that there are a lot of animals that
there is another thing; this question of the cost
of ethics. There are some things as there are
and forks in the sheep box. We just have to sell
some of them, but we have turned down a lot of these
cases. In some of the sheep cases, it is so great
that these things are really too rotten to be paid for.
MR. WILKINS: This has been very

helpful, but I take it that what you are saying is
you are saying that the technicians on animals are
never to consider good meat-producing animals?
MR. WILKINS: That is the
competition against the same method and technique
they would probably be better in the long run. The
only point I have been trying to explain is that
another essentially there is any real difference
between the operations of a retail company and
one of a commission.

MR. WILKINS: Possibly a lot of
difficulties are in defining the word "retail".



1 MR. STEWART: One usually does have a
2 problem with definitions.

3 MR. BLAIR: Having listened to the
4 discussion I think obviously these different
5 merchandising organizations buy and sell and price
6 their products in certain ways and do the
7 bookkeeping at the end of the year and arrive at
8 certain financial results. In the concept which you
9 have been advancing, and this might be the beginning
10 and the end of the transaction, they are similar up
11 to that point. I think what the witnesses have been
12 saying is that so far as the co-op is concerned it
13 is taking a step further. The essential co-operative
14 transaction includes the final distribution of the
15 gain in accordance with patronage.

16 MR. STEWART: I think there is perhaps
17 more than that. You consider that the co-operative
18 is more closely identified with its customers than
19 the average retail store would be?

20 MR. STAPLES: To say "more closely
21 identified", is to underestimate this. It is a legal
22 relationship. Maybe in our thinking sometimes we
23 carry the principle of limited liability a bit too
24 far.

25 MR. STEWART: I might concede that the
26 co-operatives have performed a very important role as
27 far as their members are concerned and I know that they
28 intend to perform it. I am concentrating on what may
29 be only a limited part of their activities.

30 THE CHAIRMAN: Mr. Stewart, I am a little

MR. STEWART:

...which is the...

MR. STEWART:

...I think obviously there is...

...organizational and all...

...products in certain areas and...

...at the end of the year...

...financial results in the context...

...been saving, and this is...

...end of the organization, they are...

...I think what we want to have...

...as the co-op is concerned...

...the general co-op...

...the final distribution of...

...is concerned with...

MR. STEWART: I think there is...

...more than that. I consider that the...

...is more closely identified with...

...the average retail store...

MR. STEWART: So say "more closely..."

...is to understand what it is...

...May be all of the...

...the principle of...

MR. STEWART: I think...

...co-operative have performed a...

...as their present...

...to perform it. I am...

...only a limited...

...the...



1 confused as to what is the main purpose of our dis-
2 cussion at the moment. Where are we attempting to
3 lead? You have pointed out similarities in the
4 operation and in the practices. I think I see great
5 similarities in the objectives and I see differences.
6 Mr. Fowler mentioned some. But they are both working
7 towards the economic gain of their owner. In one
8 case it is their patrons and in the other case
9 the shareholders. It may be that in the case of the
10 co-operative they do think beyond the economic gain;
11 certainly they contribute greatly toward the
12 communities and members. I think their contribution
13 has been on the economic side generally -- a better
14 standard of living, a better means of earning a
15 livelihood. I would think the similarities go a long
16 way.

17 MR. STEWART: Mr. Chairman, you ask
18 what all this is leading up to. It is really leading
19 up to what you just mentioned. We have two types
20 of organization; the co-operative on the one hand and
21 the ordinary corporation on the other. They are both
22 doing substantially the same thing and are operating
23 for purposes of economic gain. At a somewhat later
24 stage in our discussions we will naturally get to the
25 question of whether for taxation purposes there
26 should be a differentiation between the two types.

27 MR. STAPLES: May I comment on the
28 Chairman's remarks? As I understand it he suggested
29 that one of the many similarities is the fact that both
30 a co-operative and an ordinary company serve its owners.



1 This is true; but this is only part of it. As
2 Mr. Stewart indicated in his example this morning
3 of the \$5,000 man and the \$1,000 man, the co-operative
4 really serves its users who happen to be and must be
5 owners, but the user interest is not the paramount
6 interest.

7 THE CHAIRMAN: I thought I said that. I
8 said the owners in the one case are the patrons
9 and in the other the shareholders.

10 MR. STAPLES: It is not as owners they
11 are served but as users. This is a sharp distinction
12 in our minds. The owner of an ordinary company
13 who may have \$1,000 in stock presumably gets ten
14 times as much in dividends as the owner who has
15 \$100 in stock. The owner in the typical co-operative
16 who has \$100 to put in shares or member loans will not
17 receive a substantially greater amount and pays no
18 greater total than the man with \$1 or \$2
19 in there.

20 THE CHAIRMAN: Your real owners must be
21 your patrons, because your shareholders are the people
22 who put up beyond their patronage a small amount of
23 money. I think you really are thinking of those
24 people as lenders of funds rather than as owners
25 sharing in the profits.

26 MR. STAPLES: But the point I am trying
27 to come at is the surplus in the co-operative is
28 distributed substantially -- in some cases entirely
29 but not always -- in proportion to the patronage and
30 to a very, very limited extent, if any, in proportion



1 to the investment. So, there is a sharp distinction
2 between investor owned and the co-op. It is sort of
3 blurred if we think of the ownership interest as being
4 the paramount one. It is the user interest that is
5 the paramount one.

6 MR. STEWART: Thank you, Dr. Staples.
7 Just to complete this branch of the questioning, may I
8 deal for a moment with the agency co-operative?

9 This is a co-op that does not do any
10 buying; it acts as an agent for its members in relation
11 to the sale of their produce. Now, the co-op provides
12 certain services and I take it that the services it
13 provides are essentially the same as those that are
14 provided by its competitors?

15 MR. STAPLES: It might be.

16 MR. STEWART: The charges they would make
17 for their services in the first instance at any rate
18 will be the going prices in the particular industry?

19 MR. STAPLES: The charges that it makes
20 for its services?

21 MR. STEWART: Yes.

22 MR. STAPLES: The spread required.

23 MR. STEWART: We are talking now about an
24 agency. Let us take again the wheat pools.

25 MR. STAPLES: You mean the cost of wages,
26 rent and so on?

27 MR. STEWART: I was thinking more of the
28 handling charge it may make for the services it renders.

29 MR. STAPLES: If it is on a commission
30 basis it would be the same rate of commission and this

the investment. So, there is a certain delay between
between investor owned and the company. It is not
planned if we think of the ownership interest as being
the personal one. It is the same business but it

MR. STANLEY: Thank you, Mr. Stanley.
Just to complete this branch of the question, how
deal for a moment with the equity participation?

This is a co-op that does not do a
business as an agent for the members in relation
to the sale of their produce. Now, the co-op is
certainly not a co-op and I take it that the members
are essentially the same as those who are
provided by the company?

MR. STANLEY: The answer to your question
for their services in the first instance is a yes
will be the same, except in the production of
MR. STANLEY: The answer to your question
for the members?

MR. STANLEY: Yes.
MR. STANLEY: Yes, a co-op.
MR. STANLEY: He is talking about the
company. Let us take again the whole thing.

MR. STANLEY: Yes, the co-op.
Next time we will
MR. STANLEY: I was talking about the
handling of the produce. It is the same as the
MR. STANLEY: It is the same as the



1 kind of thing.

2 MR. STEWART: Yes. Again, however, there
3 is the fact, I take it, that if a particular producer
4 deals with a co-op he will be charged a certain
5 commission or a certain amount for services rendered;
6 but he may expect and hope that at the end of the year
7 there will be an over-all gain from the operation
8 which will be returned to him to some extent. Whereas
9 if he deals with a non-co-op, this does not happen;
10 the charges that are made to him are final charges?

11 MR. STAPLES: Typically, yes.

12 MR. STEWART: Now, I would like to go to
13 a different --

14 MR. McMASTER: May I suggest that possibly
15 this is not a description of an agency co-op? This
16 may be one type of agency which would be co-operative
17 if what it is doing is charging maintenance, but the
18 other type, and I would say the most predominant one
19 in any producer field, is the one where the product
20 is sold through the co-operative association and the
21 co-operative association therefore is liable
22 to pay the gross proceeds less the cost of operation.
23 What these costs of operation are in the period cannot
24 be determined until the end of the period. It is a
25 little different than your description of an agency
26 co-op as being one charging a commission. It just
27 would not fit into the reality of the situation as we
28 know it in British Columbia, at any rate.

29 MR. STEWART: Well now, in that type of a
30 case is the situation basically this: The producer,



As the first I believe, the first of a series of questions
deals with a co-op law which is changed a great
deal in a certain amount for various reasons
but he may expect and hope that at the end of the day
there will be an overall gain from the changes
which will be returned to him in some way. When
it deals with a non-co-op, this is not necessary
the changes that are made to him are not necessary.

MR. BELMONT: Typically, yes.
MR. BELMONT: Now, I would like to ask
a question --

MR. BELMONT: May I suggest that the reason
there is not a description of an "open co-op" is
may be one type of co-op which would be co-operative
it what it is doing in changing relationships, but the
other type, and I would say the more common one
in any product field, is the one where the product
is sold through the co-operative association, and the
co-operative association operates as a
to pay the costs of operation and the costs of the
that these costs of operation are in the hands of the
as determined until the end of the year. It is
which different from a description of an open
co-op as being one operating a normal business. It is
which the costs are really of the operation of the
now it is difficult to make, as you know.

MR. BELMONT: I am not sure if I am
going to the extent of saying that the



1 the salesman or whoever it may be, turns his produce
2 over to the co-op on the basis that it will be sold
3 by it? Presumably he gets an initial payment when
4 he turns it over or shortly after that.

5 MR. STAPLES: That is correct.

6 MR. STEWART: And then ultimately there
7 is an accounting to him of whatever the co-operative
8 receives for that amount of this particular product
9 less his proportion of the expense which it incurred
10 in connection with its operations?

11 MR. McMASTER: Basically, yes.

12 MR. STAPLES: That is correct.

13 MR. McDONELL: There are many of them that
14 are mixtures of both. They receive the product
15 from their members in advance and then will make an
16 interim payment, the final payment, and also have
17 later on a patronage dividend. So they are all
18 mixed.

19 MR. STEWART: I find that last instance
20 extremely interesting because there you end up with a
21 patronage dividend whereas in the case Mr. McMaster
22 was referring to there was no patronage dividend at
23 all.

24 MR. McDONELL: I mention these cases
25 because there is a very vital distinction between a
26 dividend and final payment. There is a slight legal
27 distinction, but in plain economics no distinction
28 whatever.

29 MR. HARDING: May I say something on this?
30 There were some remarks made, Mr. Chairman, regarding

...or whoever is now in, but it is not
over to the co-op on the basis that it will be
up for? Presumably he gets an initial payment
he takes it over on that basis.

MR. STEVENSON: That is correct.

MR. STEVENSON: And then afterwards, when
in an accounting to him of whether the co-op is
referred for that amount of this particular year
less his proportion of the expense which is covered
in connection with its operations?

MR. STEVENSON: Initially, yes.

MR. STEVENSON: There are many of them that

are mixtures of both. They receive the proceeds
from their members in advance and then will pay
later on payment, the final payment, and also pay
later on a percentage dividend. So they are all
mixed.

MR. STEVENSON: I find that last statement
extremely interesting because there you end up with a
percentage dividend whereas in the case of the
one referring to there was no percentage dividend at

MR. STEVENSON: I would have been
because there is a very small deduction for the
of the and final payment. There is a slight
the dividend, but in this case it is the dividend.

MR. STEVENSON: Yes, I am not sure.

I am sure, and I am sure, Mr. STEVENSON.



1 the distribution of the final payment. In the rules
2 of the Fishermen's Co-operative which we entered as
3 an exhibit this morning you would find that the
4 distribution of the proceeds of the sale, after making
5 the advance payment, is very carefully worded. We
6 can deduct the expenses of operation but we have to
7 keep a very careful accounting by species and by
8 nature of handling. The final payment is made
9 according to each species. I think Mr. Carter
10 suggested that if this distribution did not take this
11 into account it could be deemed more as a profit.
12 But this has to be followed carefully and it means
13 that at times our final price for one species of fish
14 may be below what our competition is paying, because
15 our competition does not have to follow this method.
16 We find this very often. We found this last year
17 in respect of halibut; we were below the price paid
18 the year before. We sell the species, deduct
19 expenses and the rest is distributed.

20 THE CHAIRMAN: You are simply saying that
21 you keep the books by species and your patronage
22 dividend applies to the species?

23 MR. HARDING: Our final payment.

24 THE CHAIRMAN: Mr. McDonell said there
25 was a very thin line in some of these cases between
26 patronage dividend and final payment. I would have
27 thought the line was clear. I would have thought that
28 the patronage dividend is in effect the distribution of
29 something much more coarse than that of the whole or
30 of a large sector of the whole and it did not relate in

the distribution of the final payment. In the case
of the fishermen's Co-operative which we mentioned
an exhibit this morning you will find that the
distribution of the proceeds of the sale, after the
the advance payment, is very carefully worked out
can deduct the expenses of operation for a long
time a very careful accounting by species and by
nature of handling. The final payment is made
according to each species. I think you will
understand what this distribution did not take into
into account it could be deemed more as a profit,
but this has to be followed carefully and it means
that at times our final prices for one species is high
may be below what our competition is getting because
our competition does not have to follow this method.
We find this very often. We found this last year
in respect of halibut; we were below the price paid
the year before. We sell the species, deduct
expenses and the rest is distributed.

THE CHAIRMAN: You are simply saying that
you keep the prices by species and your expenses
divided and applied to the species?

MR. HANCOCK: Our final payment.
THE CHAIRMAN: Mr. Hancock, could you
be a very fair man in some of these cases and
perhaps say that the final payment would be
about the same as the one I would have made for
the salmon and halibut is in about the same
something much more correct than that of the
of a large portion of the cost and is the result of a



1 the same way to the articles as the final payment.

2 Am I correct?

3 MR. McDONELL: No. The final payment
4 is a rough estimation, in any cases I am familiar
5 with, after the product has been substantially sold
6 of what is going to be available. You have to wait
7 and find out what your expenses are and you make
8 your final settlement at the end of the year after you
9 get your allocation between species. You have
10 something left over which is called patronage
11 dividend.

12 MR. STEWART: Would it not be the case
13 in Prince Rupert in Mr. Harding's co-operative that
14 the final payment, so-called, would have to be diverted
15 until after the end of the year?

16 MR. HARDING: Well after. We hold the
17 fish in storage for a good year.

18 MR. STEWART: So it would appear to me
19 that you are accomplishing the same purpose. You are
20 calling that payment a final payment. In actual
21 fact it represents or includes the same element that
22 in many other cases would be called the patronage
23 dividend?

24 MR. STAPLES: That is correct.

25 MR. BLAIR: Just a moment. I think we
26 have to be very careful to realize that we are not
27 talking about a single type of operation but are
28 talking about a multitude of different types of
29 co-operative transactions. What may be appropriate
30 and apply to what Mr. McDonell has said may be

is a rough calculation in any case I am fairly sure

whether the product has been successfully sold

if what is going to be available. You have to see

and find out what your expenses are and you have

to find out what your expenses are at the end of the year

and your allocation between expenses. It is

something left over which is called "dividend"

dividend.

Mr. STEWART: I am sure it will be the case

in Prince Rupert in Mr. Stewart's case, because when

the final payment is made, it would have to be a dividend

which is the end of the road

Mr. STEWART: Well, after that. We hold the

right in charge for a good year.

Mr. STEWART: So it would appear to me

that you are accomplishing the same purpose. You are

getting that amount of capital expenditure. It is

that is represented or included the same amount in the

in any other cases you would be able to do the same

dividend

Mr. STEWART: That is correct.

Mr. STEWART: That is correct. I think

have to be very careful to realize that the same

capital expenditure is a type of expenditure for the

capital and a maintenance of the same capital

of the same capital. What is the difference

and what is the difference between the two?



1 something which has no relevance to what Mr. Harding
2 is talking about. I think that is the reason I sort
3 of offer this caution. I think what the people in
4 Prince Rupert call a final payment is a final payment;
5 the final cost of this business of acting as agent
6 for their members in the sale of fish. There may be
7 other problems in connection with the handling of
8 products in the co-operatives to which Mr. McDonell
9 refers that makes it necessary for them to adopt
10 another technique.

11 MR. STEWART: But I suggest that if
12 one of Mr. Harding's species is salmon and he lumps all
13 his salmon transactions together, in computing the
14 final payment, the final payment that a particular
15 fisherman receives in respect of the salmon he has
16 delivered reflects the results of the operation of
17 that particular co-operative in respect of all salmon
18 sales. So that when you say it is a final payment
19 in respect of that particular species, this pooling
20 concept has come into operation and you are getting,
21 I think, in the final payment, something which
22 represents the over-all experience of the co-operative
23 in relation to transactions in that particular
24 species.

25 MR. BLAIR: That is undeniable.

26 MR. HARDING: I might say, Mr. Chairman,
27 we had 32 pools with an average of 16 species in each
28 pool.

29 THE CHAIRMAN: Are the patronage divi-
30 dends broken down too?



1 MR. HARDING: Excuse me; these are not
2 patronage dividends.

3 THE CHAIRMAN: Then I can put my question
4 positively. We will assume you break it down in
5 two species, one halibut and the other salmon. The
6 halibut makes a profit and the salmon makes a loss;
7 but the halibut profit exceeds the salmon loss, so
8 at the end of the year there is a patronage or a
9 dividend. Do both kinds of fishermen get a dividend
10 or just one?

11 MR. HARDING: Mr. Chairman, I am sorry
12 to disagree with your example. It would not work in
13 our organization. The way we work is we have two
14 fishermen each bringing in halibut and another one
15 bringing in salmon. We may make a payment which is
16 well below what it may sell for, so there is very
17 little danger of any loss on that advance payment.
18 The fish is sold, the expenses are deducted and both
19 fishermen receive a payment. Now, how you would
20 measure whether it is a profit or loss, I don't know.
21 If that particular fisherman wanted to compare it to
22 what a brother fisherman sold it to a competitive
23 fishing company for, he might figure out that he made
24 a loss on halibut and the other fellow might figure
25 he made a profit on salmon. But we sell it, deduct
26 expenses, and he gets the remainder.

27 THE CHAIRMAN: It was a poor example I
28 chose.

29 MR. BLAIR: Mr. Chairman, this may not
30 be the appropriate time to introduce a legal



1 distinction, but the law has distinguished between
2 these transactions. In the instance where you are
3 operating what is called an agency type co-operative,
4 where the co-operative simply handles the products of
5 its members, then the law as it now stands says that
6 this is a co-operative which does not earn income.
7 On the other hand, if the co-operative continues its
8 business on a different basis and buys and sells and
9 arrives at a position where it has a gain which is
10 distributed through patronage refunds, then the law
11 as it stands now does say that a taxable income
12 exists and it can be reduced by the amount of the
13 patronage refund. So when we talk about these
14 things we are really talking about two distinct types
15 of co-operative operation.

16 MR. STEWART: Perhaps this question
17 should be asked of Mr. Harding or McMaster. Is the
18 Prince Rupert Fishermen's Co-Operative in relation
19 to its fish-handling activities treated as an agency
20 co-op for tax purposes?

21 MR. HARDING: Yes.

22
23 --

24 --

25
26
27 --
28
29
30



1 MR. GRANT: Mr. Stewart and Mr. Chairman, I may
2 say that what gives me some concern in this matter is
3 the fact that we can accept agency principles without
4 question in the case of marketing coops up to the point
5 where you make your initial payment, there is no doubt
6 about that. The Commission which is charged for handling
7 the product is absolutely justified. Then it comes to
8 the point where you want to distribute something that is
9 available for distribution. Now, take for instance
10 an abatoir, something of which I have a little knowledge.
11 If a man is a shipper of hogs to the abatoir, he may
12 be selling his hogs at a time when hog prices are very
13 low and the cooperative abatoir may lose money or not
14 make operating charges on that particular shipment of
15 hogs. Later hog prices rise in the same year. The
16 overall operation at the end of the year shows a profit
17 or they show a surplus, let us call it. Now, when it
18 comes time to distribute that surplus, it is my
19 impression that the man who sold his hogs when the price
20 was low is going to come in for a share of the money
21 which has come into being as a result of a price
22 increase, a strengthening. He is going to come into
23 it on the basis of his proportion of sales, and this is
24 where it seems to me the agency principle breaks down.
25 I think it is a rather vital point. I do not know
26 whether you wish to address yourself to that subject
27 or not.

28 MR. STAPLES: Perhaps more than I will have
29 to address myself to that, Mr. Grant, because it is a
30 very good question and there is a great deal of



1 importance in this area of the discussion.

2 I want to state the principle in a very general
3 way and I am sure some of my friends who have practical
4 experience will want to elaborate and I hope they do.

5 We have to have regard to the purposes in mind.
6 The farmers in Nova Scotia, or many of them decided they
7 wanted to market their hogs through an abbatoir. They
8 wanted to market their pork as pork rather than as hogs,
9 so to speak. It just is not practical for each farmer
10 any more to kill his hog in the woodshed or down the
11 cellar, wherever he used to do it. He decides that his
12 neighbour and he will create a packing plant to do it
13 for him. Inevitably when he comes to that conclusion
14 he has to accept in some degree, whether he understands
15 it or not, the principle of pooling because you just
16 cannot follow a hog through the plant. You could get
17 most parts of its carcass back, by the by-products would
18 be lost and it would not be an efficient operation. The
19 principle of pooling has a great deal of ramifications.
20 It may be that in pooling because of time, as you
21 suggest, prices go up and down. This will mean he will
22 get more or less for his hogs, but the members of this
23 organization are convinced, or were convinced that in
24 the total overall they would get more for their hogs
25 than they would have got before. This is the principle.
26 I think it needs to be understood clearly. Of course it
27 is impossible to operate an agency coop in terms of
28 what is suggested, but it is not impossible and is being
29 done on a large scale to the satisfaction of the members
30 who operate these cooperatives on the principle of



pooling, and operate them practically and efficiently.

MR. GRANT: I follow you entirely, but I am wondering whether or not the agency principle looses its force as a result of the agreement of all members to pool whatever may turn out to be some money for distribution.

MR. STAPLES: Well, now, maybe some of my legal friends need to answer this question, but it does not seem to me to fly too seriously in the face of the principle of pooling to suggest that we could pool it as a group, as it were.

MR. STEWART: The principle of agency.

MR. STAPLES: I am sorry, the principle of agency. Surely we could have an agency to process and market our hogs, not just to process and market this one and that one. Surely that would be impossible.

MR. GRANT: I am only raising the questions.

MR. BRANNICK: I think when Mr. Harding was speaking he spoke of his Prince Rupert area having to have thirty-two pools in a year. In the lower Fraser Valley they have periods where they pool, probably a two week period of pooling where the price has not much time to fluctuate. I believe that would answer the Commissioner's question. I think this would apply to beef and pork, but the pooling periods in such a case as that is set over a certain period. Mr. Harding said they had thirty-two different periods in Prince Rupert. I know in the lower mainland potato deal they have different pooling periods according to whether the price is likely to fluctuate such as in the spring when



1 early potatoes come on, and so on during the year. This
2 does not take place at times when prices go up and down
3 because they have these pooling periods.

4 MR. GRANT: It is quite conceivable that under
5 that sytem one could overcome any breach which might
6 occur in the agency principle.

7 MR. BRANNICK: Yes.

8 MR. GRANT: Then at its worst it would be
9 confined to a relatively small period of time?

10 MR. BRANNICK: Yes.

11 MR. GRANT: This would minimize the breach.

12 MR. BRANNICK: Yes, but thirty-two during the
13 year would be almost one e very week.

14 MR. McMASTER: I wonder if I could suggest
15 that there is a difference which has to be recognized
16 here between an entity and the cooperative itself and
17 the members. Really a pooling operating is something
18 that the members agree to between themselves. It is a
19 mutual proposition. This agreement expresses their
20 mutual contracts or their mutual subscriptions and
21 agreements to pool as between the members. It is not a
22 regulation, as it were, of the cooperative. It is not
23 the cooperatives money, it is the members money and the
24 cooperative distributes it as the members have
25 contracted it should be distributed among them. I think
26 this concept has to be kept in mind.

27 THE CHAIRMAN: I think we might break for
28 something between five and ten minutes, Mr. Stewart.

29 ---Recess.



1 THE CHAIRMAN: Mr. Staples, are you ready down
2 there?

3 MR. STAPLES: Yes, sir.

4 MR. STEWART: Now, gentlemen, I would like to
5 come to a different subject and that is the question of
6 the growth of cooperatives in Canada. In order to bring
7 out some of the information that I have assembled on
8 that subject I wonder if we could look in the first
9 instance at the joint brief and at the tables which
10 appear at the back, some of which I should like to
11 mention.

12 First of all from Table 5 I observe that --

13 THE CHAIRMAN: Mr. Stewart, I am sorry I have
14 not got Table 5.

15 MR. STEWART: It is well at the back.

16 THE CHAIRMAN: I have it, yes.

17 MR. STEWART: I observe from Table 5 that at
18 the end of 1961 there were 2,868 cooperatives in Canada
19 and the total number of members was 1,626,000. Am I
20 correct in that, Mr. Staples?

21 MR. STAPLES: Yes.

22 MR. STEWART: Then going back to Table 3 you
23 have set out there the number of members in particular
24 cooperatives. That is, you classify cooperatives
25 according to the numbers of members and if I deduct from
26 the total the first two classifications, which I take
27 it are under one hundred, and there are 1,258 which are
28 apparently under one hundred, and then there are another
29 620 between one hundred and two hundred, I take it, and
30 the total of those two in any event is 1,878. If I

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1 subtract that number from the total of 2,928, which
2 appears toward the bottom of that column it would appear
3 that there are over 1,000 cooperatives in Canada at the
4 present time which have more than 200 members each,
5 would that be correct?

6 MR. STAPLES: That looks to be correct, sir.

7 MR. STEWART: Then going back to Table 5 for
8 a moment, I observe from the righthand column that
9 the total amount of business done, and I take it this
10 is dollar volume, by the cooperatives in Canada in 1961
11 aggregated 1,470,492,000, would that be right?

12 MR. STAPLES: Yes.

13 MR. STEWART: Then going back to Table 4, I
14 notice that here again we are dealing with dollar volume
15 of business, and if I take the first three classifications,
16 which are under \$25,000.00, between \$25,000.00 and
17 \$50,000.00, and between \$50,000.00 and \$100,000.00,
18 there are roughly something over 1,400 cooperatives in
19 those three categories, and if I subtract the total of
20 the first three from the figure shown again back way
21 down, 2,688, it appears that there are only 1,200
22 cooperatives in Canada, or there were in 1961 only
23 1,200 cooperatives in Canada which had sales in that
24 year of \$100,000.00 or more?

25 MR. STAPLES: It looks to be that.

26 MR. STEWART: Now then, this does not appear
27 in the tables but I think from the reading that I have
28 done in these briefs it might be fair to say that some
29 at any rate of these cooperatives are carrying on a
30 large scale and complex operation?



1 MR. STAPLES: That's right.

2 MR. STEWART: And I also would like to have your
3 reaction to this. Would it be fair to say now that
4 when a new cooperative is formed, if it requires
5 financial assistance it is much more likely that it
6 will be able to obtain that assistance now than it would
7 have been some years ago because the movement itself
8 has become better established and there are, as I
9 understand it, many cases where the older cooperatives
10 have been willing to assist newer cooperatives
11 financially to get them on their feet.

12 MR. STAPLES: Well, I think Mr. Stewart it is
13 fair to say that but that is by no means the whole
14 story. There are a great many cooperatives -- well, I
15 should not say a great many, but perhaps a substantial
16 number of cooperatives in Canada that would not exist
17 presumably if they had not been helped or not received
18 the help from the government at one time or another. I
19 think all the governments of Canada perhaps assist
20 cooperative development because of its social value, and
21 perhaps because of its economic value too, and this
22 help has come from the federal government and provincial
23 governments. The far north is a good example of this
24 at the present time. I do not have any figures as to
25 whether the interest of governments financially in
26 cooperatives is increasing or not. I am not sure.

27 This is one source of financial assistance to
28 new cooperatives that should certainly not be
29 minimized in many provinces. It is also true that I
30 do not know of any source of funds for cooperatives,

MR. STANLEY: That is right.

MR. STANLEY: And I also would like to have you

reference to this. I think it is fair to say that

when a new cooperative is formed, it is possible

financial assistance is given more likely than in

will be able to obtain that assistance in the future.

Have been some years ago because the Government has

has become better established and there are, as I

understand it, many cases where the other cooperative

have been willing to make better arrangements.

immediately to get them on their feet.

MR. STANLEY: Well, I think Mr. Stansfield is

fair to say that that is by no means the whole

story. There are a great many cooperatives -- well, I

should not say a great many, but certainly a great number

number of cooperatives in Canada, and I think not only

generally if they had not been helped or not started

the help from the Government or some kind of subsidy.

I think all the Government of Canada people realize

cooperative development and that of the social value, and

perhaps because of the economic value too, and that

help has come from the Federal Government and the

provinces. The fact is that a good example of this

is the present time. I do not have any figures to

show the interest of Government in the

cooperatives in their aid or not. I am not sure.

This is a good example of this. I am not sure.

and I think that is a good example of this.

and I think that is a good example of this.

and I think that is a good example of this.



1 government or otherwise, that would be available to
2 them to any substantial extent on the basis of, shall we
3 say, charity. The loans that were given to cooperatives
4 from outside sources would be expected to be repaid, and
5 it would be assumed that they would be repaid, and the
6 members would have to provide a sufficient amount of
7 financing on their own in share capital or otherwise
8 to give this some security.

9 Some of the large new cooperatives that have
10 started for instance in Canada -- take for example the
11 cooperative abbatoir in Halifax which seems to be a
12 good example of this, where these farmer members -- I
13 should call on Mr. McEwen for this, put up a large sum
14 of money and the government provided twice that much
15 more, or something like that, Mr. McEwen?

16 MR. McEWEN: That's right.

17 MR. STAPLES: I suppose that help in another
18 line of business in another part of the country might
19 conceivably have come from some cooperatives, but it
20 would not come unless there was interest and security
21 behind it, and that does have to come essentially from
22 the members.

23 MR. STEWART: Yes. I was in no sense
24 suggesting that if one cooperative loaned money to
25 another this is to be regarded as charity. I was simply
26 trying to break it down and, as I understand it, one
27 cooperative is perhaps likely to go out of its way to
28 help another cooperative if it needs assistance?

29 MR. STAPLES: Since the cooperative movement
30 is larger than it was, Canada's economy I suppose is



1 larger too, but since the movement is larger than it
2 was there would be more money available in total to
3 spread over more places. It might not amount to any
4 more assistance.

5 MR. LAIDLAW: I think it should be pointed out
6 that the assistance performed in one part of the country
7 would be much more substantial than in another. For
8 example, a consumer cooperative starting in Newfoundland
9 today would be in a far different position from one we
10 will say starting in Saskatchewan so that the situation
11 varies greatly from one province to another.

12 MR. STEWART: I see.

13 MR. STAPLES: Mr. Stewart, could I comment
14 on this? Perhaps I am anticipating something, but I
15 would like to comment on one or two of the figures you
16 mentioned in the tables.

17 MR. STEWART: I wish you would.

18 MR. STAPLES: One is sufficient. This Table
19 No. 5 the total for 1961, and I think you drew our
20 attention to the volume of business including other
21 revenues in 1961 as being \$1.47 millions?

22 MR. STEWART: Billion.

23 MR. STAPLES: Billion dollars, I am sorry.

24 This figure is not incorrect as far as we know, but it
25 does include everything. It includes the value of the
26 produce handled by the large marketing cooperatives
27 even though some of it is just on a commission basis.
28 The volume of wheat handled by the wheat pools is in
29 this figure. I am not suggesting it should not be, but
30 this is the basis on which this set of figure is built



1 and in a sense it would be correct to say that -- I am
2 using them only as an example -- the wheat pools are
3 service cooperatives, existing on a service fee per
4 bushel. I am sounding as if I am trying to minimize the
5 size of the cooperative movement, but these figures have
6 to be processed a bit before they show really a true
7 picture.

8 MR. STEWART: Yes. Well, most figures do, Mr.
9 Staples.

10 MR. STAPLES: That is the point I wanted to
11 make.

12 MR. McDONELL: Just to enlarge on those
13 figures --

14 THE CHAIRMAN: On Mr. Stewart's figures?

15 MR. McDONELL: These figures include the value
16 of the livestock that are auctioned through the acution
17 market.

18 MR. STEWART: I think the point you are making
19 now will may be more material when I come to some of
20 the other figures, but I would like you to comment on
21 this situation before going to those figures. I should
22 like to refer to page 9 of the joint brief and I want
23 to draw your attention to some statements which are
24 made in sub-paragraphs (b), (c) and (d) of paragraph 14.
25 In the first sentence of sub-paragraph (b) you say that
26 cooperative marketing activities are concentrated at
27 the assembly level and have not grown in relative
28 importance in post-war years. Then in paragraph (c)
29 you say that cooperative purchasing still occupies a
30 small part of the national total and is concentrated

1 and in a house it was a lot better to say this -- I
2 using them only as an example -- the whole thing
3 service people, existing on a similar level
4 myself. I am something as in it or trying to get into
5 state of the cooperative movement, but there is a
6 to be achieved a lot before they know in this way
7 future.

18 MR. WILSON: That is the same thing I
19
20 MR. McOWEN: That is the same thing I
21

22 THE CHAIRMAN: On the other hand, the
23 MR. McOWEN: There is a lot of
24 of the movement that are not in the movement

25 MR. WILSON: I think the whole thing is
26 now will may be more important when I come to the
27 the of a figure, but I would like you to consider
28 this situation before making any more decisions

29 the be able to get 2 of the same thing in 1
30 to show your association to some of the people who
31 made in the movement (a) (c) and (d) of a

32 in the first section of the movement (a) (c) and (d)
33 cooperative movement, and the whole thing is
34 the whole thing is not the same thing in 1

35 in the first section of the movement (a) (c) and (d)
36 you are a cooperative person, and the whole thing is
37 will be able to get 2 of the same thing in 1



1 largely in the field of farm supplies, and then you go
2 on to say that exact statistical comparisons are
3 impossible but that available figures indicate that the
4 cooperative share of the total business is at the level
5 of about 2 per cent of total retail sales. Then at
6 page 10 at the end of sub-paragraph (d) you say that
7 cooperative wholesale sales have grown only slightly in
8 the post-war period in relation to the total wholesale
9 sales. Now, I have been looking in connection with
10 those statements at certain tables and editorial comments
11 which appear in this article by Professor McIvor, which,
12 as you know, is entitled "Recent Growth of Canadian
13 Cooperatives". I have a copy of this article before
14 me. In Table 1 which appears on page 3 he sets out
15 certain information with regard to marketing and merchand-
16 ising cooperatives in Canada. Then at page 19 in Table
17 13 he deals with marketing sales of cooperatives and
18 others. He deals with the question of marketing sales
19 and cooperatives as a percentage of Canadian cash
20 income from the sale of farm products.

21 Now, I won't attempt to recite all these
22 figures but in the last two columns he indicates this,
23 that in 1947 the cooperative marketing sales were 29
24 per cent of Canadian farm cash income whereas by 1960
25 that percentage had risen to 35 per cent, so there was
26 an increase from 29 per cent of the total to 35 per
27 cent which is an increase of 6 percentage points or
28 something over 20 per cent.

29 Now, that column relates to all cooperative
30 marketing sales, and then his final column deals with



1 the cooperative marketing sales leaving out grains.
2 On that basis the percentage was 23 per cent in 1947
3 and it was 28 per cent in 1960 which is an increase of
4 5 percentage points or again something over 20 per
5 cent. Now, that has to do simply with marketing. I
6 do not know if you happen to have those figures available
7 but if so -- I see Mr. Blair is again indicating that
8 you have -- would you challenge those figures at all?

9 MR. BLAIR: Mr. Chairman, I do not think that
10 the figures are capable of being challenged, but the
11 question is: What use you make of the figures. We deal
12 with this whole question of the statistical comparison
13 of cooperatives and non-cooperative farm marketing at
14 pages A14 to A16 of the main brief. This is Appendix
15 A.

16 MR. STEWART: Well, I am well aware that you
17 do that, Mr. Blair, but I do not think you have any
18 figures of this exact sort. I do not think you have
19 figures of the sort I have just mentioned from Dr.
20 McIvor's article.

21 MR. BLAIR: No, but we comment on this type
22 of figure.

23 MR. STEWART: Well, the comment you make, if
24 I remember correctly, is that this is the same as the
25 point which was made by Dr. Staples and Mr. McIvor a
26 few minutes ago, that in your computation of coop
27 marketing sales you take in ---

28 MR. BLAIR: I think the main point we make in
29 this regard is summarized in paragraphs A31 at the
30 top of page A16.



1 The situation which is faced here is, I have
2 been advised, and have found out from my own investigation,
3 that the statistical series are maintained by the
4 Government of Canada in each agency for different
5 purposes. There is a statistical series which is
6 entitled "Canadian Farm Cash Income". This represents
7 the dollars which farmers receive at the farm when they
8 sell their products. Then there is another statistical
9 series, to which Mr. Stewart referred, and which is
10 referred to in Table 13 at page 19 of McIvor's article
11 which is called "Cooperative Marketing Sales", so that
12 immediately one sees that you are dealing with two
13 different transactions. You are comparing sales which
14 marketing cooperatives make to third parties with the
15 prices which farmers receive from marketing cooperatives
16 and their values at the initial levels. Now, I am
17 advised and this is stated in our brief at paragraph
18 A31 in particular, that increasing in recent years these
19 two comparisons have got out of line because there is
20 more and more involved all the time in the processing
21 of food products, preparing them for marketing. There
22 are very few products now which go to market which do
23 not represent another final processing, a considerable
24 amount for labour for packaging and so on. There is a
25 tendency, therefore, in comparing cooperative marketing
26 sales with Canadian farm cash income in these various
27 commodities to continuously overstate the cooperative
28 operation in the market. As a result of that I am
29 advised that the economics division which, prior to
30 1960, prepared the series to which Mr. Stewart



1 refers, has now suspended it because they felt that it
2 no longer is meaningful.

3 THE CHAIRMAN: Mr. Blair, your point is that
4 now there is more what you might call value added to
5 foodstuffs than there was before comparisons are not
6 valid, but they would only not be valid if the value
7 was added only to one category and not to the other
8 category? Is that in fact what has happened?

9 MR. BLAIR: No. I think if you were going to
10 make a proper comparison, Mr. Chairman, and we do
11 undertake this comparison at various stages in this
12 presentation, you would compare let us say the value of
13 marketing sales by cooperative creameries as opposed to
14 sales by other types of creameries. What Mr. McIvor
15 has done is to compare the sales by cooperative
16 creameries with the sales by farmers of their products.

17 THE CHAIRMAN: You said that is not a fair
18 comparison because there is a greater markup in dairy
19 products than there used to be because of other things
20 done to the product, is that right?

21 MR. BLAIR: That is correct, and I think it is
22 statistically demonstrable that that is so. It of
23 course comes out quite clearly in some of the details
24 which we have prepared in this brief where it is shown,
25 for example in McIvor's tables at one stage, that the
26 cooperatives share of dairy marketing which is based on
27 comparing cooperative sales to farm cash income and has
28 arrived at what is called the percentage of 42 per cent
29 whereas, if you compare cooperative dairy sales with
30 the sales of all dairy enterprise you are still under



1 30 per cent.

2 MR. STEWART: Now, Mr. Blair, I do not know
3 that we can profitably spend much more time on this
4 particular Table 13 but I simply wanted to point out
5 that this at any rate is Mr. McIvor's presentation of
6 the position.

7 MR. BLAIR: We say with respect and with a
8 great deal of vigor, because these figures have been
9 widely quoted, that they are not properly constructed and
10 in order to say, as Mr. McIvor has said, that the
11 cooperative business has increased, and he says by
12 20 per cent or 25 per cent within the time limit that
13 he has given, he is not able to demonstrate it from the
14 data which he has provided and other data which is
15 available shows that that is not the case.

16 THE CHAIRMAN: What is the result based on other
17 data? Is it here?

18 MR. BLAIR: Mr. Chairman, we might perhaps
19 take Table 19 as a typical table. Now, this table
20 shows that in three important categories where cooperatives
21 properly engage in the processing of primary products,
22 and in the case of livestock the cooperative share has
23 declined from 2.5 per cent to 1.6 per cent. In the case
24 of dairy products it has declined from 26.2 to 25.3.
25 In the case of fruits and vegetables it has declined
26 from 2.6 to 2.3. There are unfortunately not complete
27 figures available on all of these products but these
28 are the only natural products I am instructed where
29 there is any significant degree of cooperative processing,
30 so we are able in this area to take the D.B.S. figures



1 which deal with manufacturing in general and the
2 cooperative share of the manufacturing to show what the
3 cooperatives share is.

4 MR. STEWART: Well, Mr. Blair, I might just
5 observe in passing that it is very difficult to reconcile
6 your Table 19 with the Table 3 in Mr. McIvor's article,
7 and it may be that they are dealing with different
8 things but taking livestock alone you show in Table 19
9 in the year 1957 a figure which I guess is \$12,368,000.00
10 as the cooperatives share and Mr. McIvor's figure is
11 \$199,849,000.00 so I do not really think, Mr. Chairman,
12 we can settle this particular argument here.

13 MR. BLAIR: Now, Mr. Chairman, I think this
14 is important and this is the point we are trying to
15 make. I think it is important to understand what
16 figures we are talking about. In Mr. McIvor's figures,
17 which we cite at other places in our brief, is included
18 all the business which cooperatives do with livestock;
19 the auction of livestock and so on which was described
20 today. What is included in Table 19 is simply the
21 livestock which is processed and finally sold by
22 cooperatives.

23 COMMISSIONER PERRY: With the exception of
24 those 1949 figures there. If read correctly the figure
25 for the gross selling value of livestock is \$697 billion.

26 MR. BLAIR: Mr. Chairman, I was afraid someone
27 would ask about that.

28 COMMISSIONER PERRY: It is not the Chairman
29 this time.

30 MR. BLAIR: I was afraid someone would ask this

in detail which is being done in the

cooperative share of the money, and the

Mr. [Name] is the one who is

and it may be that they are the

things and taking the money from the

in the year 1987, I think it is

as the cooperative share and the

to improve and this is the point

take, I think it is important to

figures we are talking about. In

which we are in other places in our

all the business which is being

the question of the money and the

today. What is the point in the

livestock which is the main



1 question.

2 COMMISSIONER PERRY: Well, it is a good
3 question.

4 MR. BLAIR: We could just strike off the last
5 figures.

6 COMMISSIONER PERRY: It is an error?

7 MR. BLAIR: Oh, yes. The last three figures
8 should not be there. This obviously from 1949 for
9 both dairy products and fruits and vegetables.

10 THE CHAIRMAN: For 1949 in the three cases we
11 can take off the last three figures in both columns?

12 MR. BLAIR: Yes.

13 COMMISSIONER GRANT: It is to be noted, Mr.
14 Blair, that that declined between the years 1949 and
15 1957 but there has been an improvement in the three
16 years from 1957 to 1960 in each case, which might
17 indicate that you have cleared out any unprofitable
18 detail?

19 MR. BLAIR: I think, Mr. Grant, it would be
20 wise to have some other person answer that. Just from
21 looking at the statistics we have just made selections
22 from various years. They appear to me that they have
23 an up and down feature to them. There does not seem to
24 be any long continuing down or up trend.

25 COMMISSIONER GRANT: Which would indicate
26 improved management?

27 MR. BLAIR: We hope so.

28 THE CHAIRMAN: I would think that Mr. Stewart
29 has said that we might move on from the figures.
30 Perhaps looking at the figures is a job for our staff



1 which might receive assistance from the staff of the
2 organization.

3 MR. STAPLES: We would be glad to help if we
4 can.

5 MR. STEWART: I will not go further into the
6 question of marketing of coops. I would like to draw
7 your attention, however, to what McIvor says on the
8 question of merchandising coops, wholesale coops because
9 you might have some immediate comment that you wish to
10 make.

11 In Table 3 on page 5 of his article he sets
12 out sales volume of marketing and merchandising cooperatives
13 in Canada in certain years, and on the latter half of
14 the page he says, or purports to say that in 1947 the
15 sales of merchandising coops in Canada amounted to
16 \$127 millions whereas in 1960 they amounted to \$362
17 millions, which is an increase of almost three times.
18 Now, of course, that increase of three times does not
19 mean anything for our present purposes if the
20 corresponding figures for the country as a whole
21 increased by the same amount, but McIvor deals with the
22 question editorially on page 24 in his article and he
23 says there that, and the first part I imagine you
24 certainly would agree with, that statistical comparisons
25 are indeed tedious. He goes on to say that they serve
26 to establish two main points. First of all, in
27 particular areas of merchandising as, for example, food
28 and fertilizer, hardware, lumber, clothing and home
29 furnishings represented in the growth of cooperative
30 sales have substantially exceeded those in the whole of



1 Canada and second that at the present stage of
2 development, total cooperative merchandising sales
3 represent a very small but obviously increasing
4 percentage of total Canadian sales in comparable
5 areas. Then there is a footnote there which is to the
6 effect that he doubts that the figure could have
7 risen by the end of 1960 to more than three per cent,
8 but that three per cent figure is, of course, materially
9 in excess of the 2 per cent figure that I think is
10 mentioned in one of these briefs. It may be only one
11 percentage point higher but it is 50 per cent higher.
12 That is what he has to say about consumer cooperatives.
13 I do not know whether you would like to make any
14 comment at this stage on that or not.

15 MR. BLAIR: Mr. Chairman, again it is a question
16 of using different statistical series, and I think
17 essentially it is a matter which statisticians could sort
18 out, but I hope you will not mind me taking a minute to
19 record our views because these figures and these
20 statements have been widely quoted, and we are of the
21 opinion that they are very erroneous and misleading.

22 This matter is dealt with at pages 10, 11, or
23 9 and 10 of our main brief. It is also dealt with at
24 pages A19 and 20 in Appendix A.

25 Perhaps some members of the Commission will
26 feel that we refer to it overly frequently at other
27 places.

28 THE CHAIRMAN: Of course you have got tables
29 in there, seven and others which set out figures?

30 MR. BLAIR: Yes, Mr. Chairman, so far as we



1 think the figures can be meaningful, subject to the
2 qualifications which we have had to put on them.

3 Now, Mr. Chairman, the situation with regard
4 to the statistics can be summarized thusly. The
5 Department of Agriculture through its Bureau of
6 Economics receives detailed reports each year from
7 cooperative organizations in Canada, and those reports
8 for cooperative sales are broken down into various
9 categories. That is to say, how much petroleum we
10 sell; how much food we sell; how many groceries we
11 sell and so on. Cooperative sales are normally broken
12 down for statistical purposes into commodity groups.
13 On the other hand, the Dominion Bureau of Statistics
14 which keeps the record of all retail sales does not
15 break them down in this way but rather by reference to
16 establishment. These sales are related to stores whose
17 main business is that of selling groceries, hardware
18 or clothing and so on, so that if you compare cooperative
19 sales as listed by the Economics Branch of the Department
20 of Agriculture for say groceries with the sale of
21 groceries through grocery stores by D.B.S. you are
22 simply not comparing the same kind of thing. That is
23 one problem.

24 The second problem is that many of the
25 most important cooperative sales are what are called
26 bulk sales. They are sales of feed, of petroleum, of
27 commodities of that type in bulk, and these I
28 understand are not regarded as retail sales in the
29 statistical series maintained by D.B.S. With those
30 two basic qualifications in mind it is possible to make



1 think the progress of the movement, and I do not
2 think it is a movement which we have to be on guard
3 New, Mr. Chairman, the situation of the world
4 is, in general, one of a serious danger.
5 I believe that a serious danger is facing the
6 world, and I believe that the danger is a danger
7 cooperative organizations in general, and I believe
8 that the danger is a danger which is a danger
9 a danger. But it is to say, however, that
10 well; how can we sell; how many countries we
11 well, we can sell. Cooperative is a very important
12 for the movement, and I believe that the danger
13 on the other hand, the danger is a danger
14 which is a danger of all the world, and I believe
15 that the danger is a danger which is a danger
16 establishment. There is a danger which is a danger
17 and I believe that the danger is a danger
18 in general, and I believe that the danger is a danger
19 which is a danger of all the world, and I believe
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1 comments on comparison of growth. For example, if it
2 is said that sales of hardware as retailed through
3 cooperatives has grown out of proportion to sales of
4 hardware through hardware stores immediately you get
5 into the problem of what have been happening to hardware
6 stores in general. Are hardware stores now increasing
7 their hardware or are they not increasing as
8 a result of more shopping centres, discount houses and
9 those kind of things. So, if a cooperative entered
10 the business of selling hardware at a period when all
11 these other factors were taking place there is bound to
12 be a grave over-statement of their hardware sales. The
13 same thing I think can be stated to a greater or lesser
14 extent in respect of all these statistical comparisons.
15 They are not valid because they are not all accurate.
16 No matter how they are prepared they are all bound to over-
17 state the importance of cooperative sales.

18 THE CHAIRMAN: Well, the amount of over-
19 statement, if it is an over-statement, or the amount of
20 increase, anyhow, between the end of the war and now
21 seems to me greater than stated by Mr. Stewart.

22 MR. STAPLES: He has only taken Mr. McIvor's
23 figures which only went up to 1960.

24 THE CHAIRMAN: But on your table, Table No. 7,
25 I take it 1945 or 1946 was the right one, 95 million?

26 MR. STAPLES: Up to 426 million.

27 THE CHAIRMAN: Something like $4\frac{1}{2}$ times, and $4\frac{1}{2}$
28 times is certainly more than three times. It seems to
29 me, with respect to all the reservations you place in
30 there that it must be a great deal more than that in the



1 retail trade, in proportion. It probably I suppose
2 would be borne out by what you say at page A21, that
3 this is up from 2.7 to 2. ---

4 MR. BLAIR: I am sorry, Mr. Chairman, the
5 figure you were using as the base here, is it Table 7?

6 THE CHAIRMAN: Yes, I was looking at 1946 at
7 the bottom of the page, from 95 million to 426,275,000.
8 Then I said it was getting close to $4\frac{1}{2}$ times. It is
9 not quite $4\frac{1}{2}$ times but 4.3 or 4, I think.

10 MR. BLAIR: I would suggest respectfully that
11 this is the total figure and the relevance of that
12 total figure is where it is significantly out of line
13 with the growth of retail sales in general which in
14 our submission is not the case.

15 MR. STAPLES: As I indicated, Mr. Carter, in
16 that little historical review of mine, the cooperative
17 movement, speaking very broadly, got going in the
18 purchasing consumer field at a later stage so we started
19 from what is really a small position. It is still small.
20 Two or three per cent is small. This is the thing that
21 has to be taken into account. The rate of growth may
22 seem high but the volume of business we handle in total
23 is very small.

24 MR. STEWART: Perhaps what precipitated all
25 these questions was the fact that you have stated here,
26 or given me the impression that the rate of growth was
27 slighter than the national average.

28 MR. BLAIR: May I just say a word, Mr. Stewart?
29 I do not think we said that. Did we not say rather that
30 it has not grown beyond the national average?



1 MR. STEWART: I think perhaps in respect of
2 cooperative purchasing I was wrong. When you were dealing
3 with marketing you said it had not grown in relative
4 importance. When you were dealing with cooperative
5 purchasing you simply said it still occupied a small
6 part. If it is the case that that part has increased
7 from 2 per cent to 3 per cent it is still a 50 per cent
8 increase in proportion.

9 MR. BLAIR: Mr. Stewart, this is why we have
10 to get into this terrible statistical squabble, because
11 actually we are dealing with peanuts where it is 2 per
12 cent or 3 per cent.

13 MR. STEWART: Of course, Mr. Blair, when we
14 get up to \$3 or \$4 millions a lot of people would not
15 regard that as peanuts.

16 MR. BLAIR: I am just saying it is not a
17 large percentage. The reason why we have to make a
18 such a point about what we are talking about is that
19 the argument against -- not against us, but the argument
20 is put that we have grown tremendously because we have
21 grown from 2 per cent to 3 per cent. Now, we have to
22 then ask everybody concerned to look very very carefully
23 at the premises upon which these figures are founded
24 because if we are correct in our analysis then the
25 growth has not been of that order.

26 MR. STEWART: Quite so.

27 MR. BLAIR: We respectfully invite that study
28 from that standpoint. We do not accept Dr. McIvor's
29 figures.

30 MR. STEWART: Let me go on to wholesale just



1 for a moment because I do not want to belabour this
2 but it may very well be a matter for the statisticians.
3 You say on page 10 that cooperative wholesale sales
4 have grown only slightly in the post-war period in
5 relation to total wholesale sales. Now, at page 25
6 of McIvor's book he has a short sentence which seems
7 to be completely contrary to what you say here. He
8 says that in relation to the growth in the total
9 Canadian wholesale trade, and he says this is from
10 1953 to 1960, a rise in the trade of the cooperative
11 wholesales has been tremendous. Now, granted again
12 that starting from a small business, and that may be
13 an explanation, but as regards the wholesales he started
14 in 1953 and not in 1947 and in the table on page 26 of
15 his book he gives figures with regard to particular
16 classifications of commodities for the cooperative
17 wholesales and the total Canadian wholesale trade, and
18 to take the first one, which is groceries, he says that
19 in the seven year period of coops grocery sales, that
20 is the wholesale coops, they went up by 207 per cent
21 whereas the total Canadian wholesale trade in groceries
22 went up by 60 per cent. Take another one. I am not
23 prepared to read them all, but take one which may or
24 may not be a good one; flour, feed and fertilizer.
25 The coop wholesale trade sales went up in seven years
26 by 106 per cent whereas the total Canadian wholesale
27 trade went up by only 13 per cent. Now, he may have
28 taken items here, I don't know, in which the coops
29 concentrated their sales, but generally speaking the
30 rate of increase on the part of wholesale coops is



1 several times that rate of increase in the wholesale
2 trade generally. Again, are these figures suspect
3 as far as you are concerned? Where do we stand?

4 MR. BLAIR: We have commented on these figures
5 at several states in the brief, paragraph A-46 at page
6 A-24. I think that after I have made one or two
7 observations it may be helpful to have comment from
8 people in the wholesale business.

9 There has been no contraction of the cooperative
10 wholesale functions such as may have occurred in the
11 wholesaling industry in general. As to groceries, I
12 am looking for the figures in the brief where we deal
13 with that special problem in respect of groceries which
14 was dealt with by the Royal Commission on Price Spread,
15 where it is said that ---

16 MR. STEWART: About the growth of the chain
17 store, you mean?

18 MR. BLAIR: Yes.

19 MR. STEWART: That is at the top of page A25.

20 MR. BLAIR: In A22 there is a statement on
21 the amount of food sales from cooperatives which shows
22 that it has not significantly increased since the war,
23 remaining at 2 per cent.

24 As to these other categories, there are
25 problems in evaluation of these statistics which come
26 into it.



1 whether the commodity classifications, flour, feed
2 and fertilizer, for example, which is used in the
3 co-operative wholesale statistics, are compared with
4 the same category used in the D.B.S. statistics.
5 what is included in the item, machinery, hardware and
6 equipment. In the two series we have really no
7 knowledge how this table by Professor McIvor was
8 prepared. Our suggestion is that the growth in co-
9 operative wholesale relative to the rise in the whole-
10 sale in Canada has been quite modest. We use the
11 figure in our own Table 26 suggesting that the co-
12 operative percentage has risen from 2.4 to 3.6, but
13 we are careful to say this is only a rough figure
14 because again we are comparing unlike statistical
15 theories.

16 THE CHAIRMAN: That is a very large
17 figure in the five-year plan.

18 MR. BLAIR: I know it is.

19 THE CHAIRMAN: That is 50 per cent.

20 MR. BLAIR: We are not very sure,
21 Mr. Chairman, that this is an accurate figure. We have
22 simply put it in the submission and I have mentioned
23 it now only in order to give you some idea of the
24 difficulties which are encountered in comparing relative
25 rates of growth.

26 THE CHAIRMAN: Well, it tends to confirm
27 the other figures, does it not? If during the five
28 years the wholesale co-operative had grown seven per
29 cent it means the total wholesale trade was 15 per cent,
30 which seems to bear out the rest.



...the immediate classification, that, that

and particularly, for example, which is used in the

co-operative wholesale statistics, which is compared with

the same category used in the H. H. A. statistics.

that is included in the term, machinery, equipment and

equipment. In the two series we have really no

knowledge how this table by Professor Nelson was

prepared. Our suggestion is that the growth in co-

operative wholesale relative to the rise in the whole-

sale in Canada has been quite modest. We use the

figures in our own Table 25 suggesting that the

operative percentage has risen from 2.4 to 3.6, but

we are careful to say this is only a rough figure

because again we are comparing unlike statistical

THE CHAIRMAN: That is a very large

figure in the five-year plan.

MR. CHAIRMAN: I know it is.

THE CHAIRMAN: That is so, yes.

MR. CHAIRMAN: We are not very sure.

Mr. Chairman, that this is an accurate figure. We

simply put it in the submission and I have not

it now only in order to give you some idea of the

difficulties which are encountered in comparing relative

rates of growth.

THE CHAIRMAN: Well, it tends to confirm

the other figures, does it not? In other words, the

same the figures are co-operative and growth rate

and it means the total wholesale trade was up 10 per

cent, which is not the case.



1 MR. STAPLES: I think there is a factor
2 here, Mr. Chairman. I am not sure I can express it
3 clearly. I would like Mr. Fowler to comment also on
4 this question. In this time span we roughly are
5 discussing there has been a big change in the
6 agricultural industry in Canada, many big changes.
7 That is a tight remark, I realize, but lines of
8 business like fertilizers, livestock, feed; the
9 manufacture, processing of livestock feed and even
10 the use of spray materials and insecticides; all this
11 has increased tremendously. These are lines of
12 business in which the farmer himself has become
13 vitally interested so to some extent they developed
14 along with the development of the co-operatives.
15 That is to say that they were lines of business that
16 lent themselves to activity. The farm supply co-
17 operatives were ready and anxious to get started
18 in that way, keeping the interest of the members in
19 mind. They wanted them to use better fertilizer
20 and more feed and the like. It may be that this is
21 one factor that explains to some extent the increase
22 in wholesaling. This is the kind of product which
23 was handled through bulk and there was quite a
24 concentrated organization in locals because of the
25 nature of the members' need, and it was relatively
26 easier for co-operatives to merchandise needs like
27 this efficiently and in large volume.

28 I think this might be a factor, because
29 this kind of product can add up quickly in dollar
30 value.



1 I would like Mr. Fowler as the chief
2 wholesaler to comment on this question.

3 MR. FOWLER: Speaking generally and
4 briefly, Mr. Chairman, one of the things we do know,
5 and Mr. Simon has conducted his investigations,
6 is that there is a lack of proper co-operative
7 statistics. They are just not getting anywhere.
8 It is very hard to get things that are comparable.
9 You are comparing beans, bananas and cucumbers
10 because they are the same shape, but this is a
11 meaningless comparison. We hope that somebody
12 will come up with accurate statistics in regard to
13 co-operative movements. This effort is growing and
14 probably we will eventually have a proper measure.
15 Different people will want these accurate figures
16 and probably the government will set out to get these
17 statistics. They are difficult to obtain because
18 not all the co-operatives report them properly.
19 Somebody said something about a base of comparison.
20 This is the thing that distorts the figures.

21 I know of a friend of mine who said his
22 business had been wonderful and increased 100 per
23 cent. It turns out that he used to have one pump
24 and now he has got two. This is the kind of thing
25 which will distort the net comparison of statistics.

26 How fast should we grow? We think we
27 should grow faster than we are. Some people, like
28 politicians perhaps, view with alarm the growth of
29 the co-operatives. I do not. I know that our parti-
30 cular area of co-operatives is growing. It is growing



I would like Mr. Howler to ask the

questioner to comment on this question

chiefly, Mr. Chairman, one of the things is to

and Mr. Simon has considered his investigation

is that there is a lack of proper co-operation

statistics. They are just not getting any more

it is very hard to get this sort of data

and comparing them. Sometimes we can

because they are the same shape, but this is a

misleading comparison. We hope that someone

will come up with accurate statistics in regard to

co-operative movement. This effort is growing and

probably we will eventually have a proper picture

different people will want these accurate figures

and probably the Government will set out to get these

statistics. They are difficult to get in

not all the co-operatives report them properly

Somebody said something about a base of comparison

this is the thing that disturbs the figures

I know of a friend of mine who said

business had been wonderful and increased

year. It turns out that he used to have one shop

and now he has got two. This is the kind of thing

which will distort the base of comparison

How many shops we have. We think

should know more about this. Some people

will tell us that, but when we ask them

the co-operative. I do not. I know

what area of co-operatives is growing. It is



1 because it wants to grow, and because people in these
2 communities are going out on their own volition and
3 joining. Some people think that we are growing too
4 fast, but I might say that we reject growth in as
5 many instances as we encourage it. We see a man in
6 a community who does not have the business to support
7 this growth and we do not encourage him in this way.

8 To bring you up to date in our own area,
9 Federated sales this year for ten months are up
10 40 per cent. Is that bad? We don't think so.
11 We would like it to go higher. Where is the co-
12 operative movement going to go? I do not know.

13 THE CHAIRMAN: Mr. Fowler, I am sorry
14 that I overlooked congratulating you on the growth
15 of 70 per cent in five years.

16 MR. FOWLER: I do not think that is our
17 growth, that was somebody else's.

18 THE CHAIRMAN: It is the industry?

19 MR. FOWLER: Yes.

20 MR. McEWEN: May I comment on this?

21 I happen to have struck up a little correspondence with
22 Professor McIvor over this particular table. I think
23 it has to be emphasized that what Mr. Fowler brought
24 out, that basing growth on percentage in small figures,
25 is just definitely not comparable with percentages in
26 large figures. If these percentages of the total
27 are projected to dollars the relative growth gives you
28 something of a more successful picture, but inter-
29 pretation and translation purely in percentage just
30 does what Mr. Fowler has said. One hundred per cent

... it wants to grow, and because people in these communities are looking out on their own situation and feeling. Some people think that we are growing too fast, but I might say that we have been growing for many instances as we have grown. We are a community who does not have the business to support this growth and we do not encourage him in this way. To bring you up to date in our own words,

... this year for new members and up 40 per cent. In that year. We don't think so. We would like to go higher. Where is the cooperative movement going to go? I do not know.

THE CHAIRMAN: Mr. Fowler, I am sorry that I overlooked congratulating you on the growth of 70 per cent in five years.

MR. FOWLER: I do not think that is very much, that was somebody else's.

THE CHAIRMAN: It is the industry.

MR. FOWLER: Yes.

MR. FOWLER: Now I would like to say

I happen to have attached up a little correspondence with Professor Wilson even this year. I would like to be represented that what Mr. Fowler has said, that being known on procedure in that situation is just definitely not comparable with what is being said. At these percentages of growth and the one point to define the relative growth of the something of a more successful picture, but the presentation and translation of the situation. One of the things that Mr. Fowler has said.



1 of one, of course is two, but if you were starting
2 from an entirely different base with 100 per cent
3 it is entirely different.

4 MR. BRANNICK: Mr. Chairman, to make
5 one more comment, I do not think you should forget
6 the relationship of wholesale growth as dictated by
7 the retail growth because we are only an organization
8 serving our members. The reason that one of the
9 factors in wholesale growth must be considered is
10 simply this, that our retail associations have asked
11 us to provide additional services along the way in
12 order to serve them properly and, secondly, they have
13 amassed enough volume that we and the wholesale
14 people were able to make arrangements to procure this
15 service on their behalf, that we were not able to
16 procure primarily. So, actually the wholesale
17 volume should not be looked at simply as one part of
18 the co-operative movement. It is related to the
19 development and growth of our purchasing and retail
20 co-operatives who are our owners. So items such
21 as fertilizer and chemicals -- at one time we were
22 not able to procure them in sufficient quantities to
23 do a proper job for them. They were buying from other
24 suppliers. Now this service is provided by the
25 wholesaler and this is all added to the total volume
26 which makes a difference. I do not think it reflects
27 a two per cent position.

28 MR. STEWART: The hour is getting late
29 but I wonder if I could ask one more question on a
30 somewhat related subject? It is said in the case of



1 ordinary corporations that as they get larger there
2 is an increasing divorce of ownership and control.
3 That is, the larger a corporation becomes the more
4 difficult it is for the owners of that corporation,
5 the shareholders, to control management. Now, many
6 of your co-operatives have acquired quite a size
7 both with regard to the number of members and
8 complexity of operations. Do you find in those cases
9 that the same situation develops, namely that the
10 role of management in the formulation of policy and
11 in the making of decision increases and that that
12 of the member decreases? Is that the general view
13 in the movement on this particular problem?

14 MR. STAPLES: Well, the general statement,
15 Mr. Stewart, would be that it is a problem in the
16 co-operative movement. It is a problem in any
17 democratic movement, government or anything else.
18 However, I am not sure that careful study would
19 indicate co-operatives are less effectively democratic
20 because they are large. Maybe it would. We have
21 some small co-operatives that are not very democratic
22 either in terms of the number of members who attend
23 annual meetings and this sort of thing. However,
24 since you are placing this question on size I would
25 like to refer to the largest co-operative in Canada
26 in terms of the volume of products handled. It is
27 also one of the largest ones and this is the
28 Saskatchewan Wheat Pool. I would ask Mr. Gibbings to
29 comment on just how this is handled in his organi-
30 zation, and more specifically in respect of your



1 question as to what the trend of member interest seems
2 to be through the years.

3 MR. GIBBINGS: Mr. Chairman, in anticipation
4 of a discussion on this particular question we have
5 prepared a statement which we would be glad to file with
6 the Commission.

7 I might put it on the record in this way.
8 In the Saskatachewan Wheat Pool, for example, the
9 individual farmer member is represented by the policy-
10 making level in two years. He may first express
11 opinions in the form of resolutions introduced at local
12 country meetings and transmitted directly to the Board
13 of Directors and he may take an active part in the
14 election of delegates to represent him at annual meetings.

15 Each individual member of the Saskatchewan
16 Wheat Pool is eligible to become a member of a local
17 wheat pool committee of which there are 1,048 in actual
18 operation in the last year. Each committee numbers 10
19 or so members, selected from among all members in the
20 area. The committees meet regularly, some at elevator
21 points and some at off-rail communities which do not
22 have an elevator of their own. In 1962 these local
23 committees held a total of 4,800 meetings.

24 Each individual member is also an elector,
25 called upon once every two years to elect a delegate
26 from among fellow members in one of the 165 sub-
27 districts in which the province is divided. The province
28 is also divided into districts, each with 10 or so sub-
29 districts. For each district the 10 or so delegates
30 choose from among their number a director to represent



1 the members in their district on the Board of Directors
2 of the Pool. Directors meet regularly for a week once
3 every month in head office in Regina. The delegates
4 meet once a year in the annual meeting of delegates which
5 meets in Regina, usually for 10 or 11 days. In addition
6 delegates themselves convene regular meetings among
7 all the members in their sub-districts. In 1962, there
8 were 900 such annual delegate member meetings. Delegates
9 also convene conferences of committee members; in 1962
10 there were 140 committee conferences attended by 15,300
11 committeemen and members.

12 The examples of member participation in policy
13 making are taken from the records of three separate
14 annual meetings of delegates from debate in connection
15 with the decision about how to distribute the Wheat
16 Pool's surplus earnings for the succeeding year. In each
17 year a recommendation on surplus distribution was
18 presented to the annual meeting from the Board of
19 Directors, it was debated by the delegates (whose number
20 also include the 16 directors) and final decisions were
21 resolved.

22 1. In 1962, the most recent annual meeting,
23 the delegates accepted without change the
24 recommendation of the directors for
25 distribution of the annual surplus
26 among three categories:

27 (1) The patronage refund which included
28 two parts -- a portion in actual cash
29 payment to the members and a portion
30 to be credited to individual members



1 but retained by the Wheat Pool

2 for the retirement of equities,

3 (ii) Provision for required income taxes

4 and,

5 (iii) An amount credited to unallocated

6 reserves for use in expansion and

7 improvement of facilities.

8 2. In 1958, the delegates also approved without
9 change the directors' recommendation but they hesitated
10 for a time during the meeting while they considered
11 proposals from the floor for changing the directors'
12 recommendation. All of the suggested changes were
13 eventually rejected.

14 3. In 1953, the delegates rejected the directors'
15 recommendation and approved amendments which in effect
16 made major changes in the distribution of surplus. It is
17 interesting to note in the record of the 1953 decision
18 that the original move by delegates to change the
19 distribution was declared rejected on a floor vote. Later
20 the meeting called in the Wheat Pool solicitor to rule
21 on the question of whether a two-thirds majority (as
22 required for some resolutions) or a simple majority was
23 required to change the distribution resolution. After
24 the solicitor's opinion that the Articles of Association
25 allowed a simple majority on the question, a second vote
26 was declared to have passed.

27 We have appended to this memorandum the
28 transcript of a portion of the minutes of the three
29 annual meetings which we ask you to keep private and
30 unpublished. We ask this because our annual meetings



1 have always been considered closed and private meetings
2 and the record of their proceedings has never become
3 public.

4 THE CHAIRMAN: Thank you Mr. Gibbings. We
5 have entered that in the record by virtue of the fact
6 that you have already read it. We shall not enter into
7 the record the attachments thereto.

8 MR. LLOYD: Mr. Chairman, we could give you
9 a similar picture in respect of our organization.

10 THE CHAIRMAN: Have you a statement of this
11 kind?

12 MR. LLOYD: No.

13 THE CHAIRMAN: I was going to say that if you
14 wished to present a similar statement perhaps it would
15 be better if you did it in the morning.

16 MR. LLOYD: I can deliver it in the morning.

17 THE CHAIRMAN: I think that perhaps we should
18 wait until tomorrow.

19 MR. LLOYD: It may be longer if we wait.

20 THE CHAIRMAN: We will stand over at this time
21 until 9:30 tomorrow morning.

22 ---Whereupon the Board adjourned at 4:55 o'clock p.m.

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English translation of French appearing at
pages 3393 to 3395 incl.

MR. LEGERE: Mr. Chairman, Mrs. Milne,
gentlemen. The Consul Canadien de la Cooperation,
representing French-speaking cooperatives throughout
Canada, is happy to be present at the side of its
English-speaking counterpart to discuss with you the
complex problems arising out of taxation.

Our organization wishes to contribute to the
best of its ability to your efforts in what we consider
to be an extremely important field.

For this reason, we have associated ourselves
with our colleagues of the Cooperative Union of Canada
in putting forward the facts and opinions resulting
from the research we have conducted on questions with
which we are very familiar.

We are sincerely convinced that, during the
past quarter of a century, the cooperative movement
has made a sufficiently noteworthy contribution to the
development of our country to warrant special examination
of other ways in which taxation affects our movement.

In submitting our brief, which reflects
Canadian cooperative thinking, we wish to stress that
our movement has its own distinctive nature, producers
and aims, all of which are based on the principle of
mutual help and service, and not on the profit motive.

We are convinced that these distinctive
features must always be borne in mind in any fair
assessment of the cooperative movement.

In present day circumstances, we also wish to

English translation of French report
page 10 of 10

MR. LANGRISH: Mr. Chairman, Mrs. Wilson,

Gentlemen. The Council Committee on the

representing French-speaking and other

Canada, is happy to be present at the

English-speaking counterpart to discuss with you the

complex problems arising out of

Our organization wishes to contribute to the

best of our ability to your efforts in what we consider

to be an extremely important field.

For this reason, we have organized ourselves

with our colleagues of the Cooperative Union of Canada

in putting forward the "area and economic research

from the research we have conducted on questions with

which we are very familiar.

We are sincerely convinced that, during the

past quarter of a century, the cooperative movement

has made a sufficiently noteworthy contribution to the

development of our country to warrant special examination

of other ways in which action taken in our movement

in summing up our efforts, which are

Canadian cooperative thinking, we wish to stress that

our movement has its own distinctive history, practices

and aims, all of which are based on the principles of

mutual help and service, and not on the profit motive

we are convinced that these principles

features must always be borne in mind in any

assessment of the cooperative movement

In present day circumstances, we wish to



1 draw attention to the splended spirit of mutual
2 understanding to be found throughout Canadian cooperatives,
3 thus making these institutions a powerful factor
4 contributing to national unit.

5 We are, of course, aware that all members
6 of the Commission are sufficiently well acquainted with
7 our movement to base their opinions on actual facts
8 reflecting the particular nature of our movement.

9 In closing these remarks, may I express our
10 thanks for the kindly interest you have shown us and our
11 appreciation of the value of the work you are undertaking
12 in the field of taxation, which is a vital matter for our
13 nation as a whole.

14 May I now introduce the members of our
15 delegation:

16	Francois Jobin,	Legal Counsel
17	Paul Emile Charron	Chairman of the CCQ
18	Louis Joseph Marcotte	Secretary of the CCQ
19	Raymond House	C.A. Tax adviser
20	Romeo Martin	Quebec Federation
21	Louis Philippe Paulin	Quebec Federation

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from suggestion to the spirit of a local

thus making these institutions a national factor

contributing to national unity

We are, of course, aware that all members

of the Commission are sufficiently well acquainted with

our movement to pass their opinion on actual issues

reflecting the particular nature of our movement

In closing I am sure, may I express our

thanks for the kindly interest you have shown us and our

appreciation of the value of the work you are undertaking

in the field of taxation, which is a vital matter for our

nation as a whole

May I now introduce the members of our

Executive

William D. ...

Paul Emilie ... Chairman of the C.

Louis Joseph ... Secretary of the C.

Raymond ... O.A. Tax adviser

...

Louis Philippe ...

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

ONT.

VOLUME No. 49 DATE:

49

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1
2 ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre Court
4 Room, Exchequer Court of Canada,
5 Supreme Court Building, Wellington
6 Street, Ottawa, on Friday,
7 October 4, 1963.

8 COMMISSION:

9 MR. KENNETH LeM. CARTER -- Chairman

10 MR. J. HARVEY PERRY

11 MR. A. EMILE BEAUVAIS

12 MR. DONALD G. GRANT

13 MRS. S.M. MILNE

14 MR. CHARLES E.S. WALLS

15
16 LEGAL ADVISER:

17 MR. J.L. STEWART, Q.C.

18
19 RESEARCH DIRECTOR:

20 PROF. D.G. HARTLE

21
22 SECRETARY:

23 MR. G.L. BENNETT
24
25
26
27
28
29
30



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LIST OF EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
210	Translation of briefs of The Cooperative Union of Canada and Le Conseil Canadien de la Corporation	5549
211	Copy of Contract of Sale and Purchase	5550
212	Letter exchanged between the Deputy Minister of Department of Co- peration and Co-operative Development and Mr. Blair	5671



Ottawa, Ontario,
Friday,
October 4th, 1963.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Dr. Staples, are you and your associates ready to proceed?

MR. STAPLES: Yes, Mr. Chairman. Before we proceed could I raise a question with respect to procedure?

THE CHAIRMAN: By all means.

MR. STAPLES: It is our intention to do our best to present a complete view, as I said, about what the cooperative movement is really like. Some of us are a little apprehensive that the procedure being followed may not be conducive to that result.

We start with a certain line of questions. The questions are clear and logical and we answer them briefly and clearly as we can, but if the questioning stops some place it may leave us without having the opportunity to present a complete view. For example, take the questioning yesterday on the operating practices of cooperatives, specifically with respect to pricing. Our statement, as emphasized by myself, was that the principle which cooperatives follow is to sell or buy at the going prices, which is the fact.

However, this does not mean that the advent of a cooperative in a community or line of business does not at times have a profound effect on the price level. I am only using this as an example. This kind of thing was not very well developed there.

We would like to suggest that if some of our



1 people feel there is additional information that
2 should be provided, that we might have the opportunity
3 to say another word on it.

4 THE CHAIRMAN: I believe I see a way in which
5 we can meet that. We can ask Mr. Stewart if he would
6 let us know when he comes to a new sub-division. I
7 presume, Mr. Stewart, that your notes are by headings of
8 some kind?

9 MR. STEWART: Yes, Mr. Chairman.

10 THE CHAIRMAN: When you get through a heading
11 you can indicate that we are moving to a new heading.
12 This would indicate that there is nothing more to be
13 heard on a particular matter. Would that procedure
14 help?

15 MR. STAPLES: I think that would help some.

16 THE CHAIRMAN: Would that suit you, Mr. Stewart?

17 MR. STEWART: Yes. However, I would like to
18 add that, using Dr. Staples' example, I think the
19 Commission is well aware there is material in these
20 various briefs, which are on file, which we cannot
21 possibly cover in a hearing as short as this.

22 MR. STAPLES: Yes.

23 MR. STEWART: I think you bring out quite
24 clearly here your views as to the effect of a general price
25 level of the presence of a cooperative in a particular
26 community. The most the Commission can hope to do
27 here is touch upon some of the points. I do not think
28 we can possibly expect in two days to cover them all
29 as clearly as we might like.

30 THE CHAIRMAN: Thank you, Mr. Stewart. Most



1 Commissioners expressed to me last evening their
2 satisfaction in the manner in which the hearing is
3 being conducted, and with the general skill with which
4 the presentation is being put before us. It seemed to
5 us that all your members were taking care of their
6 particular jobs very well, without wasting time and by
7 coming to the point quickly and readily.

8 MR. STAPLES: Thank you very much.

9 THE CHAIRMAN: We appreciate that. We have
10 to enter into the record a French copy of one of the
11 submissions. Mr. Secretary, would you please do so?

12 THE SECRETARY: Mr. Chairman, Mr. Legere, this
13 morning has kindly provided us with a translation of
14 the submission of the Cooperative Union of Canada and
15 Le Conseil Canadien de la Cooperation, which was entered
16 as Exhibit 198 yesterday. I would like to enter this
17 morning the French translation as Exhibit No. 210.

18 THE CHAIRMAN: Right.

19 ---EXHIBIT NO. 210: Translation of briefs of
20 The Cooperative Union of
21 Canada and Le Conseil
Canadien de la Cooperation.

22 MR. JOBIN: Yesterday I was talking about the
23 type of contract used in agricultural cooperatives.

24 THE CHAIRMAN: This is the point we had come
25 to yesterday, was it?

26 MR. JOBIN: Yes, but I have a copy of this
27 contract and I would like to have your permission to file
28 it.

29 THE CHAIRMAN: Yes, thank you very much. That
30 will be Exhibit 211.



--EXHIBIT NO. 211: Copy of contract of
sale and purchase.

MR. JOBIN: I would like to express the fact
that this is a good example of the kind of confusion you
have, for even though the heading refers to the contract
of sale and purchase, under paragraph 4 of the contract
you see that it is a typical agency contract.

THE CHAIRMAN: You are making the confusion
complete.

MR. JOBIN: But I would like to read paragraph
4:

"The Society agrees to accept
delivery of the goods of the producer,
in such conditions of packing and
classification as are determined
by the Board of Directors. The
Society agrees to sell them. A
first payment will be made to the
producer as soon as possible. The
amount of this payment shall be
fixed by the Board of Directors.
The balance, less deduction for
administration charges and the
retainers prescribed by law shall
be paid at the termination of the
fixed period (pool)."

So, it is clear that the cooperative does not
buy but just serves as agent.

THE CHAIRMAN: Thank you very much indeed. Mr.
Stewart, I cut off the questioning yesterday rather



1 abruptly because it seemed that we had over run our
2 time. I believe we were in the middle of a question.

3 MR. STEWART: My recollection is that we were
4 about to hear from Mr. Lloyd on the question of whether
5 or not as a cooperative gets larger the problem of the
6 divorce of ownership and control becomes more acute.

7 MR. LLOYD: May I proceed, Mr. Chairman?

8 THE CHAIRMAN: Yes.

9 MR. LLOYD: My main reason for explaining a
10 little more thoroughly in regard to the control of our
11 organization is the fact that it has been stated by
12 certain organizations and groups, and individuals at
13 times, that we are getting too far away from our
14 people, that we are getting too big and that we are
15 probably not as democratic as we should be.

16 Now, Mr. Gibbings has done a very good job
17 in telling about the control of his organization
18 through a delegate system. We too follow a delegate
19 system. I think it is understandable that when an
20 organization gets large you more or less have to go to
21 a delegate system. We have some 540 local associations
22 who are members of the Federated Cooperatives Limited
23 and who are the owners of Federated. They in turn have
24 a membership of probably some 240,000 people. It would
25 be impossible, naturally, for all these 240,000 people
26 to come to a meeting, just the same as it would be
27 impossible for all the people of Canada to come down
28 here to Ottawa. So we have another delegate system
29 in our parliamentary set up, and I maintain that our
30 system in Canada is certainly democratic.



1 The system under which our delegation operate
2 is as follows. First of all, we endeavour to keep as
3 close to the grass roots as possible. We go right back
4 to the local associations who are the owners of federal
5 co-operative and these members or these local
6 associations hold meetings each year and elect
7 delegates to attend a district meeting. It must be
8 kept in mind, Mr. Chairman, that there are sixteen
9 districts in the Federated area. They elect delegates
10 to go to a district meeting each year. That means there
11 are sixteen district meetings held annually, all of
12 them within easy distance of the members of these
13 local associations.

14 In order to make it really democratic these
15 local associations are entitled to seven delegates in
16 the following manner. One because of the fact they
17 are members of the Federated Cooperatives Limited.
18 They also send one extra delegate based on every
19 \$30,000.00 worth of purchases from these central
20 organizations, which form the Federated, with a
21 maximum of fifteen delegates.

22 These delegates attend their district meeting
23 and hear reports from a director and from the
24 district delegates and the central delegates. They hear
25 read the statement of the Federated Cooperatives and
26 they have an opportunity to discuss it with the
27 directors of the Federated Cooperatives management.

28 At these district meetings they also elect
29 delegates on a two-year basis to represent them on the
30 district body, on the central organization. These are



1 elected from sub-districts. There are ten delegates
2 elected from each district, and in some cases if the
3 purchases from the Federated in that district warrants,
4 a district delegate is elected at large. These other
5 delegates are elected from sub-districts. Again a
6 maximum of fifteen is used, and this is based on a
7 certain formula we operate under.

8 These delegates, then, are the federated
9 coop delegates. These delegates attend the Federated
10 annual meeting, have an opportunity of hearing the
11 reports and discussing the reports from management
12 and the Board of Directors. They are the ones who
13 actually lay down the policies of our organization.
14 They elect one director from each of the districts they
15 represent, which means that sixteen directors are
16 elected. These directors formulate the policies laid
17 down by the delegates who are representing the owners
18 of the organization at the annual meeting. The
19 directors also hear the management and put these
20 policies into effect. They also elect from their own
21 group three vice-presidents and a president. When these
22 delegates are finished they go back to their respective
23 sub-districts and they present a full report to all the
24 locals within their sub-districts at the locals' annual
25 meetings. It must be kept in mind that each one of
26 these locals holds an annual meeting and gets a full
27 report on the Federated activities. Thus at all times
28 we are keeping close to our people right back to the
29 grass roots. In my opinion, Mr. Chairman, this is
30 democracy. We teach this to our people by practising it.



1 THE CHAIRMAN: Thank you, Mr. Lloyd.

2 MR. STEWART: Gentlemen, I would like, if it
3 is agreeable to switch to another subject or to further
4 questioning on a particular subject, and that is the one
5 patronage dividends.

6 You have filed extracts from the provincial
7 legislation with regard to cooperatives, but I notice
8 that in the brief of the Canadian Cooperative Wheat
9 Producers it is stated that it is mandatory under
10 provincial cooperative laws -- and I am reading now from
11 page 116 -- to allocate and pay to each member at the
12 end of each year the gains which he has achieved through
13 his cooperative activity.

14 There seems to me to be one respect in which
15 the cooperative corporation differs from the ordinary
16 corporation, the difference being, of course, that in
17 the case of the ordinary corporation it is a matter --
18 or generally is, at any rate, -- for the directors, with
19 such intervention by the shareholders as may be provided
20 for, to determine whether any part and, if so, what
21 part of the earnings for the year will be distributed by
22 way of dividends.

23 There is nothing of which I am aware in the
24 ordinary case which requires a distribution of the
25 earnings excepting the statement in this brief that
26 such distribution is mandatory. That may be the end
27 of the matter, but do I take it from what has already
28 been said, or from your knowledge of the matter, that
29 whether it is mandatory or not the practice is to
30 allocate and distribute in one way or another each year



1 the surplus or gain or earnings, call it what you will,
2 which has been realized during the year?

3 MR. STAPLES: The situation in this respect,
4 Mr. Stewart, has been clarified considerably in the last
5 twenty years or less. There is now no doubt to whom
6 the surplus in the cooperative belongs, to whom the funds
7 in the custody of the cooperative belong. Either it
8 belongs to the cooperative in its sole right, unencumbered
9 -- I am speaking now of the situation after the business
10 for the year has been closed and distribution has been
11 made -- it belongs to the cooperative in its unencumbered
12 position, and if it has been used to increase the
13 general reserve of the cooperative a tax has been paid
14 on it, or it belongs to the member individually. It has
15 been paid to him in such a way that without any question
16 it becomes his property, as a producer-cooperative
17 increases his income, and may increase his tax.

18 This is now in Canada a clear position and it
19 is, of course, as you suggest, supported by provincial
20 legislation, as far as I know, in every case. I think
21 the abstract we filed yesterday will give the final
22 answers on this, and Mr. Blair may have something to
23 say on it.

24 MR. BLAIR: My understanding of the provincial
25 law is that the sections dealing with the distribution
26 of surplus, after it is ascertained at the end of the
27 year, either requires that it be apportioned in proportion
28 to patronage, as it is in the case under the Ontario
29 Corporation Act and The Saskatchewan Cooperative
30 Associations Act, to take two examples; or the statutes



1 recite that the surplus shall be apportioned in
2 accordance with the by-laws, as is the case with most
3 of the Maritime legislation. But in all of the
4 provinces there are standard by-laws, and all of the
5 standard by-laws require that distribution shall be in
6 proportion to patronage.

7 All cooperative organizations in Canada are
8 under the jurisdiction of various provincial authorities.
9 I am not aware of any ordinary cooperative which is
10 free to enact by-laws without having them approved by
11 provincial authority. So that I think it is quite
12 accurate and quite safe to say that legally it will be
13 found that the surplus must be, not may but must be,
14 distributed in proportion to patronage.

15 MR. STEWART: I would like now to come to the
16 question of how one determines the amount which is
17 available for patronage refund or distribution. Is that
18 amount determined something like this? After the
19 results of the operations for the particular year are
20 known and all the expenses for the year have been paid
21 or provided for, after depreciation has been taken, after
22 any statutory or other required reserves are set aside,
23 after provision is made for any income tax which is
24 payable, there is a residual amount and that is the
25 amount which is available for patronage refund.

26 MR. STAPLES: I would say that that is so.

27 MR. STEWART: Then does it follow from that,
28 Dr. Staples, that during the course of the year the
29 amount of the patronage refund which will be available
30 in respect of that year cannot possibly be known?



1 MR. STAPLES: To try to estimate it would
2 require some guessing, for you cannot tell until the end
3 of the year, of course, what the expenses of operation
4 will be. You might come fairly close to it but you
5 would not know for sure what the expenses were.

6 MR. STEWART: Yes. Now, when you come to
7 determine actual amounts of patronage refund where you
8 have a cooperative which has engaged in different types
9 of activity, for example, in the case of a consumer
10 cooperative where it has been purchasing and reselling
11 various types of goods, I take it that an attempt would
12 be made to fix different rates of patronage refund
13 depending on a particular type of produce or commodity
14 that the particular customer has bought, and that when
15 you are dividing up this residual fund in that particular
16 way, what you attempt to do is do rough justice as
17 among the patrons who have bought and sold particular
18 types of commodities.

19 MR. STAPLES: Well, we endeavour to reduce the
20 roughness in the justice, Mr. Stewart, but it cannot be
21 eliminated entirely.

22 MR. STEWART: Yes.

23 MR. STAPLES: I think probably Mr. Fowler
24 should comment on this, but I can say that some
25 organizations do put a flat rate of patronage return
26 across the board, while others attempt to divide it
27 more accurately between different classes and kinds
28 of goods. This practice varies somewhat. Sometimes
29 it varies with the degree of complication in the
30 cooperative operation. Mr. Fowler might illuminate



1 it a little.

2 MR. FOWLER: I would ask Mr. Stewart, our
3 General Manager, to make a comment on how the various
4 rates are arrived at.

5 MR. D.E. STEWART: Mr. Chairman, and Mr.
6 Stewart, the Federated Cooperatives chose the procedure
7 you have outlined to try to determine as nearly as
8 can be done the technical basis by breaking down our
9 supply and service to our members on a cost centre
10 basis, so that we will know the result or the savings
11 on various types of goods and services which are
12 supplied to our membership. We have something like
13 75 or 80 departments or cost centres in our organization
14 and they provide this information very accurately.
15 However, we do run into a problem in allocating what
16 we might term "general overhead".

17 Just to mention an item or two in general
18 overhead that cannot be allocated on a cost centre basis,
19 we provide technical services of a broad nature to our
20 retail associations. We also provide educational
21 services to our cooperative consumers, and other
22 publications which have a cost.

23 In addition to this we provide educational
24 grants to various projects of a cooperative nature. We
25 provide grants to farm organizations of various kinds.
26 Among other grants that we make which cannot be
27 allocated are grants to universities and other worthy
28 causes, such as the Community Chest and so on.

29 Therefore, in the operation there is always
30 a substance of expense or cost which cannot be directly



1 allocated or charged on any specific operation, but we
2 do this on the most logical basis possible, and that
3 is we charge each cost centre with the proportion of
4 the total administration cost in these categories, and
5 it relates to the cost of doing business in the
6 particular commodity. For example, foods are a very
7 low margin, low-cost commodity. The margin at the
8 wholesale level runs around 4 per cent, and your cost
9 runs around $2\frac{1}{2}$ per cent. Therefore, food is $2\frac{1}{2}$ per cent
10 of the total administration expense in relation to
11 100 per cent of expense.

12 Lumbering might have a higher margin and higher
13 cost ratio, and so on. Therefore, these expenses are
14 allocated on that basis, feeling that this is a fair
15 charge, and each department is making its proper
16 contribution to the total overhead that cannot be
17 allocated specifically.

18 Mr. Chairman, as far as the retail associations
19 are concerned, you have a similar problem. Perhaps
20 Mr. Simon would like to comment on this, but many of
21 our larger associations, particularly those which have
22 a number of departments, do allocate expenses on a
23 cost-centre basis, and then divide the administration
24 expense among the departments and make an allocation
25 on the various raw commodities that are handled, keeping
26 in mind the quality, and so on.

27 Others feel that it is fair to the overall
28 membership -- because as a general rule these are
29 smaller associations made up of farm members -- to have
30 an overall allocation. They feel that this is most



1 fair. So that it does operate throughout the federated
2 area. I don't what the experience is in other parts
3 of Canada, and I should say that I am speaking now of
4 the three prairie provinces only.

5 THE CHAIRMAN: Thank you, Mr. Stewart.

6 MR. STEWART: I think it probably comes down
7 to the fact that the larger and more complicated the
8 operations become, the more difficult this question of
9 allocation may be, but that what you do is the best job
10 you can in the circumstances to allocate the benefit
11 of the operations equitably among the customers of the
12 particular community.

13 MR. STAPLES: That is correct, Mr. Stewart. I
14 would add one word. The method used, whatever it is in
15 any particular cooperative is a method that is, of
16 course, satisfactory to the members. If it were not
17 it would be changed, for they are very interested in
18 patronage refunds, naturally.

19 COMMISSIONER GRANT: It occurs to me it might
20 be relevant to refer to some information which was given
21 to us when the Alberta Wheat Pool submitted its brief
22 in Edmonton. It seems to me that in the case of a
23 consumer cooperative, that they pointed out to us there
24 that their bookkeeping requires them to keep certain
25 types of purchases separate from others. For instance,
26 in the case of farm machinery which is sold to a member,
27 if my recollection is correct, the patronage dividend
28 is distributed on the basis of the purchase of that
29 farm machinery, which is subject to tax, on the basis
30 that he is taking it into his farm production and it is



1 an item on which he will charge the capital cost
2 allowance. If I am incorrect in my observation I am
3 sure somebody will correct me.

4 MR. HARROLD: Mr. Chairman, I did not attend
5 the hearing in Edmonton but as far as our organization is
6 concerned we do not handle farm machinery or farm
7 supplies. I might say that more recently we started
8 handling fertilizer, but this is the only one, so I am
9 not sure which part you are referring to. However, I
10 do not think it was in our presentation that we referred
11 to the question of farm machinery and how it was
12 handled.

13 COMMISSIONER GRANT: I remember the point was
14 brought out, and I think it was the Alberta Wheat Pool
15 who brought it out.

16 MR. HARROLD: It could have been brought out
17 in the evidence.

18 THE CHAIRMAN: Was Mr. Grant's point correct?

19 MR. STAPLES: Yes.

20 THE CHAIRMAN: It doesn't matter who raised it.

21 MR. STEWART: I should like to move to the
22 question of the deferrment of payment of the patronage
23 refund, with which we dealt to some extent yesterday.

24 THE CHAIRMAN: Before you do, Mr. Stewart, there
25 is something that I would like to have confirmed. Under
26 the provincial cooperative laws the gain of each year is
27 required to be distributed year by year, and I am
28 rather surprised that it was required to be distributed
29 but I see that the cooperative laws do lay down that
30 requirement, that each year's gain must be passed out.



1 Is that correct?

2 MR. STAPLES: Subject to the comments made
3 by Mr. Blair a few minutes ago, yes.

4 MR. STEWART: On the question of deferrment
5 generally I have before me the Submission of the
6 Canadian Cooperative Wheat Producers Limited, and I
7 would like to refer particularly to page 104. I might
8 read from paragraph 172 on that page, starting with
9 the second sentence, and I quote:

10 "What actually happens is
11 that representatives of the full
12 membership body at the Pools'
13 regular annual meetings agree on
14 what will be the actual patronage
15 refund, taking into account
16 requirements for normal business
17 reserves, full costs of operation
18 and requirements of income tax
19 legislation. These same people
20 also agree by action of their
21 majority which portion of the
22 full patronage refund shall be
23 paid in cash, which shall be
24 retained by way of a loan and
25 which shall be used to liquidate
26 previous retained loans of
27 members who seek to retire their
28 equity."

29 I will stop the quotation there. May I take
30 it that this is a reasonable succinct but accurate



1 statement of the procedure which is followed?

2 MR. STAPLES: I am sorry?

3 MR. STEWART: I say, can I assume, Dr. Staples,
4 that the procedure outlined in paragraph 172 is,
5 broadly speaking, the normal procedure that is followed?

6 MR. STAPLES: This question should be answered
7 by Mr. Gibbings.

8 MR. STEWART: I am not suggesting for a moment
9 that it is not accurate as regards the by-laws. I would
10 like to know if it is substantially accurate with
11 regard to the movement as a whole?

12 MR. STAPLES: Substantially accurate, yes.

13 MR. STEWART: May I ask one question to
14 supplement the statement? When you say, or when it is
15 said here, that the members at their meeting determine
16 among other things what shall be retained by way of
17 a loan, can it be taken that in some cases, at any
18 rate, the retained portion is not treated or is not
19 expressly called a loan but is simply credited to the
20 shareholders' account or the members account?

21 MR. STAPLES: You are asking this one in the
22 case of the by-laws?

23 MR. STEWART: I am asking a general question.

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1 MR. STAPLES: Mr. Blair says that it is
2 correct in every case. I am not quite sure that there
3 might not be some variation in this, and I would like to
4 invite a comment from anyone behind me who thinks there
5 are exceptions to the plan you are outlining, Mr. Stewart.

6 MR. BLAIR: Mr. Chairman, perhaps I might ask
7 a question so that we are clear on Mr. Stewart's question.
8 As I understood Mr. Stewart's question, he is looking
9 at this sentence which refers to the Wheat Pool practice
10 under which moneys are obtained by way of loan, and he
11 refers to the fact that in some instances moneys are
12 obtained not by way of loans but by application of share
13 capital.

14 MR. STEWART: Either that, or on members'
15 accounts if there is no share capital.

16 THE CHAIRMAN: Your question, Mr. Stewart, is
17 whether this scheme or plan set out in 172 for pools
18 obtains generally?

19 MR. STEWART: Yes. It was my understanding
20 yesterday, Mr. Chairman, that sometimes they called what
21 was allocated to a member's account a loan, and
22 sometimes they called it share capital, but that when
23 they were determining what to do with these patronage
24 refunds the part which was not distributed in cash was
25 transferred to the member's credit one way or the other.

26 MR. STAPLES: Yes, that is correct. I thought
27 you were raising a question as to the specific form of
28 it, and limiting it a little bit.

29 MR. STEWART: No, I was trying to enlarge on it.

30 MR. STAPLES: No.



1 MR. STEWART: Now, in the latter part of that
2 sentence you say that a portion may be used to liquidate
3 previously retained loans of members who seek to retire
4 their equity.

5 Let us suppose that I am a member -- a
6 continuing member, and not one of those who wishes to
7 have his equity retired. Part of what would otherwise
8 come to me, or what might otherwise come to me in the
9 form of cash will go to this other member who wants to
10 have his investment paid off by way of cash, so that I
11 take it that what happens is that my proportion of that
12 particular fund is also credited to my account. I can
13 see that Mr. Gibbings is nodding his head affirmatively.

14 MR. GIBBINGS: Okay.

15 MR. STEWART: So to embellish that sentence a
16 little bit, when you deal with your patronage refunds,
17 part is allocated in cash and part is credited to the
18 member's account in one way or another. So far as the
19 second category is concerned some of the cash in question
20 may be used by the cooperative to pay off members who
21 wish to get their equity out?

22 MR. STAPLES: Certainly, as the cash has to
23 come from some place, that will be true.

24 MR. PARKER: So that there will be no mis-
25 understanding I think we should point out to you that in
26 the Manitoba Pool things are handled somewhat differently,
27 and with your permission I would like to ask Mr.
28 McDonnell, our comptroller, to explain.

29 MR. McDONELL: I suggest we are not alone here.
30 You are dealing with those complicated situations where



1 there is no uniformity of practice. You are dealing with
2 a federation of elevator associations, and there is an
3 agreement that a certain amount of working capital shall
4 be provided by each association. This agreement is
5 entered into and approved at a special general meeting of
6 the individual elevator associations, so that the
7 individual member gets involved in it.

8 The legal position in our organization is that
9 when you have reached a patronage dividend of a particular
10 association -- that is, enough of their surplus for a
11 period of years to produce so much money -- then
12 everything beyond that evolves out and goes to those who
13 have the earliest equity. In practice over a number
14 of years, because of the factors I mentioned yesterday,
15 it goes out to everybody every year, and there is nothing
16 retained.

17 So, it is not proper to say as a bald statement
18 in connection with all cooperatives that the members at
19 the annual meeting establish how much is going to be
20 retained, and that the money is retained for a long
21 period of time. The money is paid out in many ways.
22 There are many ways.

23 MR. STAPLES: Our hesitation in answering
24 arises from the wide variation in practice.

25 MR. STEWART: Yes. I am trying to get a
26 general understanding of the procedure. We now come to
27 the question of rotation, which is one of the things
28 Mr. McDonell has just mentioned, and I refer to the joint
29 brief, Appendix B.

30 THE CHAIRMAN: Are you moving on? If so, I



1 think they should be given a chance to fill in.

2 MR. STEWART: No, I am not moving on. I refer
3 to the joint brief, Appendix B, page B2, which has to
4 do -- at the bottom of the page there is a section
5 dealing with rotation of capital in cooperatives. I
6 think I might read the first paragraph ---

7 THE CHAIRMAN: Which schedule are you on?

8 MR. STEWART: Appendix B, page B2.

9 MR. STAPLES: Page B2, paragraph B9?

10 MR. STEWART: That is right. Perhaps I might
11 read it:

12 "For many years the general
13 arrangement has been to repay each
14 year's patronage loan after a certain
15 period of time -- the terms of payment
16 decided by membership meetings. This
17 means that in the course of a certain
18 period the members received in cash
19 a portion of their equity investment
20 built up through patronage. The
21 rotation of capital in cooperatives
22 distinguishes it from the capital of
23 ordinary joint stock companies. The
24 general theory is that the member's
25 equity investment should be for use.
26 The actual application of this theory
27 means that those members who can no
28 longer use the services of the
29 cooperative receive back their entire
30 equity."



1 Then I might also, I think, read paragraph B12, which
2 reads in this way:

3 "As shares and patronage loans
4 are returned, they are replaced by
5 shares and patronage loans provided
6 by members currently patronizing the
7 cooperative. The result is that an
8 active member tends to receive in
9 cash approximately the same or less
10 than he is currently investing in the
11 Association, and his equity may
12 increase. But an inactive member or
13 one who is patronizing less than
14 formerly will receive more in cash
15 than he is currently investing, and
16 his equity will decrease. This, equity
17 varies with the use made of the
18 services. Often arrangements are
19 made to repay all but a qualifying
20 share to members who reach a certain
21 age (usually 65 or 70) and such members
22 then receive each year's refund in
23 cash. The equity retirement of elderly
24 persons is, of course, based on social
25 motivations and not on strict economic
26 considerations."

27 Now I take it again, Dr. Staples, that this is intended
28 as a fair statement and summary of the general practice?

29 MR. STAPLES: Yes, that is correct, Mr.

30 Stewart.



1 MR. STEWART: Mr. McDonnell may again point out
2 that because of the structure of the Manitoba Pool
3 elevators their practices may vary to some extent, and
4 that there may be other variations, but this is a good
5 general description?

6 MR. STAPLES: The principles involved here are
7 two. First, of course, the basic financing of the
8 cooperative has to come from the members. It should come
9 from the members, and must. Secondly, to the greatest
10 extent possible the financing should be provided by the
11 currently active and interested members, and that is
12 really what is involved here. This is just the method
13 that is used.

14 MR. STEWART: Then, I take it that there is no
15 normal rule as to the proportion of the patronage refund
16 which will be paid in cash, and that there is no normal
17 rule as to the period of rotation?

18 MR. STAPLES: There would be wide variations
19 in this.

20 MR. STEWART: Depending on the circumstances
21 of the particular cooperative.

22 MR. STAPLES: That is right, and also the
23 ideas that the members of the cooperative may have as to
24 what a proper financing plan is. That varies quite
25 widely too.

26 MR. STEWART: Well, now, I am going to come in
27 a moment to the taxation implications of this patronage
28 refund situation, but I think, Mr. Chairman, that if
29 there are any other comments on the system as a whole,
30 or generally, this might be a good time to have them.



1 THE CHAIRMAN: Very well.

2 MR. STAPLES: As far as I am concerned, Mr.
3 Stewart, we have covered the general rule very well.

4 THE CHAIRMAN: I think Mr. Houde wants to say
5 something.

6 MR. HOUDE: It is just a small matter, but I
7 would like to get the record straight on it. You
8 mentioned a little while ago how you understood we knew
9 how the patronage refunds would be allocated. We start
10 from sales from which we deduct costs and expenses to
11 get our net earnings, of course, and then we have to
12 go to the annual meeting to determine the amount of
13 patronage refunds to arrive at, and also the balance
14 which is the basis for the computation of tax. The
15 rest then goes to the reserves. So, it is just the
16 other way around from what you have understood it to be.

17 MR. STEWART: I see. Well, I was not
18 attempting to outline the sequence of steps you follow.
19 I was trying to get at the technique.

20 MR. HOUDE: It comes to the same general result.

21 THE CHAIRMAN: That puzzles me a bit because
22 I asked before whether the distribution was mandatory.
23 I recognize that the reserves must be discretionary, and
24 it does not matter whether the discretion is exercised
25 in the distribution or the reserves, but I thought
26 the answer I got was that the full amount must be
27 distributed. I recognize that the members have the
28 right to establish the amount of reserves.

29 MR. STAPLES: Yes, it must be distributed,
30 but there are different ways in which it is paid to



1 the members, and our terminology on this is not always
2 as clear as it ought to be, perhaps.

3 MR. STEWART: I think Mr. Houde's point is
4 this -- he is not addressing himself to the question of
5 whether the patronage refund must be distributed. I
6 think he concedes that it must. But, he was concerned,
7 as I was concerned earlier, that when you determine the
8 amount that is available for distribution one of the
9 types of reserves that has to be taken into account here,
10 as I understand it, is a type that is perhaps peculiar
11 to cooperatives, in that by statute they are required to
12 set up reserves for certain purposes, and the amounts of
13 those reserves are not available by way of distribution
14 by patronage refunds.

15 MR. STAPLES: That is correct.

16 MR. JOBIN: Are the statutory reserves subject
17 to tax?

18 MR. STEWART: Yes.

19 MR. STAPLES: Yes.

20 THE CHAIRMAN: They are to some extent
21 discretionary. The reserves are called for, but they are
22 not defined as to amount in law.

23 MR. STAPLES: Oh, yes.

24 MR. SIMON: In some cases the allocation to the
25 reserves is a mandatory one in that there is some stated
26 percentage of the total which has to be put into the
27 reserve account. This is not true from one side of
28 Canada to the other, but in many cases this is correct.

29 THE CHAIRMAN: I am still puzzled, and I am
30 sorry, as to what the choices are that are available to



1 the members meeting together at the time of their
2 annual meeting. The reserves are established by statute.
3 The distribution is required to be the entire gain for
4 the year.

5 MR. STEWART: After those reserves, sir.

6 THE CHAIRMAN: Yes, the form of distribution is
7 a matter of choice. I recognize that. Would the form
8 of the distribution be the only choice that is allowed to
9 the members, or are there others?

10 MR. STAPLES: The form of the distribution is
11 the only choice, yes.

12 MR. JOBIN: No, the amount also.

13 MR. STAPLES: In a province where the mandatory
14 reserve is 5 per cent then this is not available to the
15 members. All the rest of it, the 95 per cent, is made
16 available to the members in the annual meeting, usually
17 with some recommendation from the Board of Directors as
18 to how it should be distributed -- the form of
19 distribution. The members in annual meeting may
20 decide to accept the recommendation of the Board of
21 Directors. They may decide to take it all out in cash,
22 or they may decide to leave in half of it, but it has
23 all been distributed to the members.

24 THE CHAIRMAN: It is the form that is at that
25 time discussed and which they decide on? They decide
26 whether it is to be cash, stock or notes, or whatever
27 it may be?

28 MR. STAPLES: That is right.

29 MR. SIMON: I should point out, Mr. Chairman,
30 that while the point you have made is the usual



1 procedure, occasionally -- I use that word guardedly
2 because it happens more often than we would like to see
3 it happen -- an association will make a very small sum
4 so far as earnings or savings are concerned, and sometimes
5 a recommendation will be considered by the shareholders
6 that the complete earnings be put into the statutory
7 reserve. In other cases, because of the age groupings
8 of the members, something somewhat larger than the
9 requirement may be put into the statutory reserve.

10 THE CHAIRMAN: The law, in fact, says that the
11 reserves shall not be less than ---

12 MR. STAPLES: Yes, that is right. Mr. Simon is
13 qualifying my answer very properly, Mr. Chairman. It is
14 not really only the form of distribution that the members
15 may decide upon. They may decide to leave an additional
16 amount in there as a general reserve. I am sorry for
17 not having made that clear.

18 MR. STEWART: But if they do come to that
19 decision tax must be paid upon that amount?

20 MR. STAPLES: Yes. There is no difference from
21 a tax standpoint between the statutory reserve and
22 other amounts added to the general reserve.

23 THE CHAIRMAN: I understand that.

24 MR. PARKER: I think the last answer our
25 president gave has probably clarified it, but I was going
26 to read you the by-law that governs our local
27 associations. It is:

28 "After payment of expenses,
29 making proper allowance for
30 depreciation, and after setting



1 aside necessary reserves..."

2 THE CHAIRMAN: Are these statutory reserves, or
3 any other reserves?

4 MR. PARKER: Any reserves, statutory or other-
5 wise. That is the discretionary amount you had
6 reference to. After that it says:

7 "...the rest shall be allocated,
8 distributed and paid."

9 MR. McDONELL: In most cases this surplus is
10 allocated in accordance with the by-laws, and there is
11 no deduction for reserves. The setting aside of money
12 into a reserve is beyond the normal.

13 THE CHAIRMAN: I thought most provincial laws
14 called for the setting aside of moneys for reserves.

15 MR. McDONELL: For necessary reserves, but
16 many groups have no need of it, and there is no discussion
17 of it at the annual meeting.

18 COMMISSIONER GRANT: Does it not boil down to
19 the fact that first of all you would approach this by a
20 method of deductive reasoning? In other words, you
21 would say: "What is our income tax liability? We have
22 a certain amount of earnings for distribution. We know
23 that we are paying income tax on a third of those
24 earnings; that is, we cannot deplete those earnings beyond
25 three per cent of the capital employed in our business".
26 Now, you take that off and the balance is available for
27 distribution among the members.

28 MR. McDONELL: Yes, that is so in most cases.

29 COMMISSIONER GRANT: It is mandatory.

30 THE CHAIRMAN: No, the distribution is mandatory.



1 MR. McDONELL: The tax calculation is not
2 necessarily made beforehand. The annual meeting passes
3 a resolution. After taking a certain amount off for
4 tax, the rest is allocated.

5 THE CHAIRMAN: That is right. It is not available.
6 It is capital required to be allocated. Your choice is
7 simply as to the form in which it is allocated.

8 MR. McDONELL: You cannot give the money away.
9 You cannot legally make a donation.

10 MR. McEWEN: May I read you Section 57 of
11 Chapter 40 of The Revised Statutes of New Brunswick, 1952?
12 This is the Cooperative Associations Act. The heading
13 is "Disposition of Surplus".

14 "(1). The Directors, after
15 making proper allowance for depreciation
16 and bad debts, shall set aside annually
17 or semi-annually not less than 5 per-
18 centum of the surplus arising from
19 the business of the Association for a
20 reserve fund until such fund is
21 equal to 30 per cent of the paid-up
22 capital".

23 The next subsection is:

24 "(2). The remainder of the surplus
25 shall be apportioned in the manner
26 determined by by-laws."

27 And the Association has the authority to make its
28 supplementary by-laws governing the disposition of this
29 balance.

30 THE CHAIRMAN: Thank you. We have a little book



1 up here which sets out the reserve requirements amongst
2 other requirements.

3 COMMISSIONER PERRY: This is an abstract
4 prepared by the Department of Agriculture, and in the
5 section on reserves it appears to indicate that there is
6 a variety of requirements. Sometimes there is a
7 compulsory requirement to set up a reserve, and others
8 are permissive, which seems to be about what is coming
9 out in the evidence.

10 MR. STAPLES: Yes.

11 MR. STEWART: Now, gentlemen, I would like to
12 come to the taxation treatment of the patronage refunds.
13 As you all know the Act now provides that these refunds
14 are deductible for tax purposes, whether they are paid
15 in cash or not, and there are people who consider that
16 this particular feature of the tax treatment of
17 cooperatives is discriminatory, and for that reason I
18 think we should discuss this with some care. I think
19 that as an introduction to the discussion I would like
20 to outline to you some of the considerations which I
21 think emerge from what has been said so far.

22 We have been comparing in a number of respects
23 cooperatives and other corporations. We have found some
24 similarities and we have found some differences. Perhaps
25 I should mention briefly some of the similarities.

26 We have found that the cooperative and the
27 other type of corporation are both from a legal point of
28 view separate legal personalities. That is, they are
29 legal persons, quite distinct from their members or
30 shareholders. Both types carry on businesses, and in



1 many cases in Canada now the businesses that are carried
2 on by cooperatives are substantial and complex. Both
3 types have capital acquired in one way or another, and
4 they have got their capital invested in inventories,
5 fixed assets, and so on. They each have their own
6 employees who are employees of the separate legal persons
7 whom I have mentioned.

8 When we examine the organization and the conduct
9 of the marketing, and the merchandising functions which
10 these two types of organizations carry on we find that
11 there are real similarities.

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1 Both of them appear to be carrying on their
2 business operation with a view to what I think may be
3 called profit. There seems to be some hesitancy about
4 the use of the word profit. We hear the words "gain",
5 "benefit" or "residual"; but in substance it seems to me
6 that both types are carrying on operations with a view
7 to profit. Both types hope to ^{gain} an income from the
8 transactions which they engage in.

9 These are similarities. I am not asking you
10 agree that the two are identical, but it seems to me
11 that in these respects there are similarities.

12 There are also distinctions or differences.
13 As has been brought in the case of the cooperative, the
14 ultimate beneficiaries of these operations which are
15 carried on are the patrons. These patrons are active
16 members from time to time and they benefit from these
17 operations broadly in accordance with their current
18 patronage of the cooperative. I say "broadly" because
19 it is obvious, from what has been said, that all one
20 can hope is that there will be as equitable an allocation
21 of these benefits as human ingenuity can work out.

22 In the case of the ordinary corporation, the
23 ultimate beneficiaries of the operations are the share-
24 holder, and they benefit from those operations, not in
25 accordance with patronage or business conducted with
26 the corporation but in accordance with their share-
27 holdings, whatever they may be.

28 There are also differences as to control, in
29 the sense that in the ordinary corporation control is
30 based on the votes which are attributed to particular



1 shares. In the case of the cooperative, the normal rule
2 is that each individual member has simply one vote.

3 Then I think that there are differences as
4 to motivation. In any event, that is the contention of
5 the cooperative movement. It considers that the normal
6 corporation, or the ordinary type of corporation, is
7 carrying on business essentially for profit. As I
8 understand the approach of the cooperatives in this
9 respect, it is that the cooperative corporation is
10 essentially a service corporation, or a corporation which
11 is formed to provide services to its members or patrons
12 on a cost basis.

13 These are some of the background considerations
14 which seem to me to have emerged from our discussions so
15 far.

16 From a taxation point of view, of course, this
17 treatment of patronage dividends is a pretty important
18 distinction. As the law stands now, cooperatives are
19 permitted to deduct, in the computation of income for
20 tax purposes, the amounts which they pay or set aside
21 for patronage dividends. The ordinary corporation
22 which is in business in competition with the cooperative,
23 when its residual profit is ascertained, pays tax on the
24 whole amount and, if it wishes to make a distribution of
25 profit to its ultimate beneficiaries, its shareholders,
26 then as the law now stands it does not get any deduction
27 in respect of those dividends. It can distribute only
28 tax paid amounts.

29 It is of course the case that the member of
30 the cooperative brings into income for tax purposes the



1 whole of his patronage dividend in the case of the
2 marketing cooperative and he brings the whole amount in
3 whether payment is made or payment is deferred.

4 In the case of the consumer cooperative, the
5 ordinary member is not taxed at all on the amount of
6 his dividend. There is the obvious exception, of course,
7 of the member of the consumer cooperative who is in
8 business.

9 One of the very important questions that is
10 obviously before us is whether this distinction in this
11 respect between cooperatives and other corporations is
12 reasonable and justified in the circumstances. This is
13 a very large and difficult subject and I thought, Mr.
14 Chairman, that it might be worthwhile for me to indicate
15 what I suggest as the points which might be considered
16 when we discuss it.

17 As I understand the briefs which have been put
18 in and the arguments which are made on behalf of the
19 cooperative movement, the present taxation treatment of
20 patronage dividend is justified or defended on various
21 grounds. One of them is that these patronage dividends
22 are not really dividends at all, that they are a price
23 adjustment.

24 Then it is said that cooperatives, when it
25 comes to computation of income for tax purposes, at any
26 rate, should not be treated as principals or taxpayers
27 but should be regarded simply as agents for their
28 members.

29 The point is also made that cooperatives are
30 not formed for the purpose of making profits and that



1 they should not be taxed as though they did make profit.

2 There are also arguments, I believe, along the
3 lines that some cooperatives enter into contracts with
4 their members the effect of which is to preclude them
5 from making profits. There may be still other arguments
6 with which you will of course be familiar.

7 Mr. Chairman, what I would suggest we might do
8 -- unless you or these gentlemen have some other
9 procedure to suggest -- is that we might start discussing
10 this particular problem under these various subject
11 matters, one at a time.

12 THE CHAIRMAN: That sounds all right to me.

13 MR. STAPLES: It sounds satisfactory.

14 MR. STEWART: Could I come, first of all, to
15 the price adjustment theory. That theory seems to me
16 to be relied on to some extent in the joint brief, and
17 I have in mind in particular what appears at pages 35
18 to 37. The question of the deductibility of patronage
19 refunds is dealt with in part B, which starts at the
20 bottom of page 35. I do not think it is necessary to
21 read the whole of this section. We are all familiar
22 with what is said there.

23 After describing the basic cooperative approach,
24 it seems to me that in paragraph 75 it is suggested in
25 effect that profits of cooperatives can really be
26 eliminated when we are thinking of the taxation aspect,
27 by assuming that they are in substance or in essence
28 price adjustments put through for the benefit of the
29 member. In other words, in the case of a marketing
30 cooperative, we are asked to treat the initial payment,



1 or the payment which is made at the outset, as an under-
2 payment.

3 In the case of the consumer cooperative, we are
4 asked to assume that the amount which the customer pays
5 in the first instance is an over-charge and that patronage
6 dividends are used to redress the situation in each case
7 and to bring the price paid back to the proper price.

8 This is a very brief statement of the position,
9 Dr. Staples, but is that the substance of it?

10 MR. STAPLES: You are to be congratulated, Mr.
11 Stewart, on the facility of your review of the
12 situation. I am glad you did not ask us to agree with
13 every point in your summary; but as a basis for
14 discussion I think it is excellent.

15 There are two comments which I would like to
16 make and others perhaps may like to make more. We have
17 to remember in all this what the cooperative is for, its
18 purpose, where it came from, why it exists.

19 It is true that it may look like another
20 business, with its employees, its cash registers, its
21 bank accounts, its inventories and its shelves all around
22 the store. But the place where it differs is at the
23 fundamental level of purpose. It exists to serve its
24 members at cost, for some services they decided they
25 wanted, when they organized the cooperative or approved
26 its expansion. That is a fundamental difference which
27 runs through the whole thing. If we keep that in mind, it
28 will help to clarify our discussion, I am sure, to quite
29 an extent.

30 On the question -- I have lost the point I



1 wanted, for a moment. It is true, as our brief states,
2 and perhaps our brief might have gone a little further at
3 this point than it has in some passages -- it is true
4 that the over-charge or the under-payment is -- I have
5 lost my point, excuse me. This is not something that
6 happens to me very often. I will be all right in a
7 moment.

8 MR. BLAIR: Mr. Chairman, perhaps this would be
9 the appropriate time to take a recess?

10 THE CHAIRMAN: By all means. I am glad to be
11 able to announce a recess for about ten minutes.
12 --A short recess.

13
14 MR. STEWART: Dr. Staples, I think you were
15 going to make another point?

16 MR. STAPLES: Mr. Stewart, the elusive point
17 I was searching point was not a very profound one. It
18 was this, that the discounts or price adjustments, as
19 they are sometimes called in a cooperative, the under-
20 payment or over-payment, the discount in a cooperative
21 the price then, has some of the attributes -- that is
22 the word I was looking for -- that it may have in another
23 business; but it is more, because the cooperative is
24 under obligation to pay it, to make the adjustment with
25 the member. That is the point, and this arises of
26 course from what I said just before the recess, that the
27 organization is for a different purpose, it is set up
28 for the purpose of serving the members at cost.

29 THE CHAIRMAN: I had the greatest difficulty
30 myself in accepting that statement at the bottom of page



1 36 -- but perhaps we have not reached that point yet.

2 MR. STEWART: Mr. Chairman, I was going to come
3 to that now, and I would like to ask these gentlemen
4 this question -- because many of them are in the business
5 of purchasing from outside agencies or concerns. Would
6 it be fair to say that in the ordinary case of a discount
7 or rebate, the rate of discount or rebate is established
8 ahead and before the transaction takes place?

9 Now, granted that there may be situations where
10 a person earns a particular rate of discount, through
11 purchases over a period, but in those cases, as I
12 understand the practice, the scale of discounts or rebate
13 is fixed ahead.

14 What I am trying to determine here is whether
15 the practice which is followed with regard to patronage
16 refund is really comparable, because we have already
17 agreed, I think, that in the case of a patronage refund,
18 you cannot possibly determine the rate of the refund or
19 the amount which will be available for distribution,
20 until after the transaction has occurred. Would you
21 care to comment on that, Dr. Staples?

22 MR. STAPLES: On the last point, on the fact
23 that you cannot establish it?

24 MR. STEWART: On my attempt at distinguishing
25 the type of quantity discount or the type of rebate that
26 you get in ordinary commercial transactions, and the
27 patronage refund on the other hand.

28 MR. STAPLES: I think Mr. Blair could make
29 this distinction more clearly than I.

30 MR. BLAIR: Mr. Stewart, I think that in many



1 case the volume discount which is offered is part of the
2 immediate term of sale. But I believe there are cases
3 -- and I know that at one stage they exercised the
4 Combines Administration considerably -- where the amount
5 of final discount which might be offered to a given
6 set of purchasers, was made dependent upon more or less
7 the year-end results.

8 MR. STEWART: But was not the scale of
9 discounts determined ahead?

10 MR. BLAIR: I am not so sure that it is. I
11 was going to make this point, that the solution to this
12 difficulty was the very thing that the cooperatives do,
13 which is to hold out the prospects, that discounts would
14 be paid if certain circumstances occurred.

15 You understand, Mr. Stewart, that we are not
16 saying that the patronage refund is precisely the same
17 thing as a discount, but we say that it can be compared
18 in many respects.

19 I thought that this comment might be of
20 assistance. I am of the opinion, from my knowledge, that
21 you do not have to specify the percentage rates of this
22 year-end volume discount. But perhaps your information
23 is different.

24 THE CHAIRMAN: Mr. Blair is correct, I think.
25 There are trades where the discount is established at
26 the end of the year, from year to year, dependent on the
27 volume in the year.

28 MR. STEWART: But I think, Mr. Chairman, it
29 may be as a matter of law that the person who is
30 prepared to grant these discounts is required to publish



1 them ahead, not only as to their existence but as to the
2 rates.

3 THE CHAIRMAN: Well, there are some. They may
4 well be in breach of the law, for all I know.

5 MR. BLAIR: There are all sorts of purchasers
6 back here who might be familiar with this practice.

7 MR. McDONELL: Mr. Chairman, may I suggest a
8 thought which has occurred to me. An insurance company
9 makes a rebate to the insurance agent, by way of
10 additional commission or whatever it may be called, based
11 on the insurance experience for the year. There are
12 many types of insurance and pension schemes and there is
13 a rate based on the experience. It is a common practice.

14 MR. LEGERE: In the automobile business the
15 companies give quantity discounts and they do that at
16 the end of the fiscal year.

17 MR. GIBBINGS: I might also point out that the
18 opposition in the grain business can and do frequently
19 announce in advance their intention to pay a dividend,
20 without specifying the amount.

21 THE CHAIRMAN: That is a travelling discount.

22 MR. LAIDLAW: Is it not true also that the
23 cooperatives rate actually is set in advance by saying it
24 will be 100 per cent?

25 MR. STEWART: On that basis one can certainly
26 conceive that a formula is established. But whether that
27 formula is really to be equated with the rebate or
28 discount that you get from an ordinary commercial
29 corporation is obviously arguable.

30 I am not sure that on this particular question



1 we do not come back to the point which we ultimately get
2 back to on many of these arguments, which is this. Has
3 the real profit from the operations of the cooperative
4 been earned before you get to the patronage dividend
5 stage? In other words, is the cooperative a corporation
6 which is carrying on business for the purposes of gain?
7 Does it in fact earn income and make a profit or gain?
8 If it does, should it not be taxed in the same manner as
9 any other entrepreneur?

10 MR. STAPLES: The word "profit", Mr. Stewart,
11 is quite properly applied to a cooperative, in so far as
12 its business arises from dealing with non-members. I
13 think that is so. But in so far as its surplus arises
14 from dealing with members, then the word "profit" cannot
15 properly be used -- if you use it in the ordinarily
16 understood dictionary meaning. The word "profit" has
17 many meanings. It may be just a general good. We may
18 say that this discussion "is a profitable discussion".
19 In this sense, the word "profit" has many uses. If you
20 are using it to designate the financial advantage coming
21 to a person in proportion to his investment -- which is
22 the usual use -- then it cannot properly be applied to
23 the surplus in a cooperative which arises from dealings
24 with members.

25 MR. STEWART: Is this because you might
26 consider, Dr. Staples, that the relationship between a
27 cooperative and its member or patron is not strictly an
28 arm's-length relationship?

29 MR. STAPLES: Well, I suppose it is not an
30 arm's-length relationship. I am not quite sure what an



1 arm's-length relationship is. The members in the
2 cooperative are one in every sense except a legal sense.

3 MR. STEWART: You differentiate in the relation
4 between a member and the relation between a non-member.
5 I would expect that the relationship between a cooperative
6 and a non-member would ordinarily be an arm's-length
7 relationship, if the relationship between the cooperative
8 and the member is something different.

9 MR. STAPLES: Yes, it certainly is something
10 different.

11 MR. STEWART: Perhaps it could be described as
12 a non arm's-length relationship. Please understand that
13 I am not trying to get you to make admissions here that
14 you should not make.

15 THE CHAIRMAN: The transactions between a
16 corporation and a cooperative, the transactions between
17 a member and a shareholder -- I suppose they might be
18 non arm's-length relationships -- but it might be the
19 other way.

20 MR. STAPLES: I think it might properly be
21 described as a non arm's-length relationship. It
22 can be said that the initial transaction -- I am talking
23 in terms of techniques -- the initial transaction is not
24 the final transaction.

25 MR. STEWART: That is one reason why I asked
26 that question.

27 MR. BLAIR: Perhaps I should interject so that
28 we may be clear that we are using the words "non arm's-
29 length" in a purely untechnical sense.

30 MR. STAPLES: Yes. My lawyer friend should



1 protect me on this, because I do not know the significance
2 of "non arm's length".

3 MR. BLAIR: Yes, as frequently the courts do
4 not indicate it.

5 COMMISSIONER PERRY: When Mr. Staples said this,
6 I leaned over and said to the Chairman that Mr. Staples
7 was a lucky fellow.

8 MR. STEWART: The mere reason I asked the
9 question, Dr. Staples, is that, as you know, we have had
10 representations made to this Commission which are to the
11 effect that this particular tax treatment of cooperatives
12 should be reversed. It has been said in connection with
13 this price adjustment theory and in connection with your
14 argument about discounts and rebates, that you only do
15 grant -- when I say "you" I should perhaps be more
16 explicit -- that a business grants discounts on rebates
17 to persons who are adverse in interest to the particular
18 business and not to persons who have an identity of
19 interest with the business. Would you care to comment
20 on that?

21 MR. STAPLES: I have never been able to
22 understand this concept or see any value in it. I
23 doubt my ability to discuss it and I should like to ask
24 Mr. Blair to start off the discussion. There may be others
25 in the room who might like to speak on it also.

26 THE CHAIRMAN: Might I make one comment at this
27 point. It might be helpful to Mr. Blair to make a
28 comment. Certainly it would give him something to shoot
29 at.

30 I would have thought that discounts and rebates



1 in a non-cooperative corporation are to increase trade,
2 to increase profit; whereas patronage dividends are not
3 directed towards that but are directed, from my under-
4 standing, to distribute whatever the gain may be, so as
5 to bring back the services for the member to cost. I
6 would have thought that there is quite a difference
7 between a payment to increase profit and the payment of
8 patronage dividend.

9 MR. BLAIR: I think, Mr. Chairman, that your
10 comment is right. We do not wish to appear to say that
11 the patronage refund is just like an ordinary trade
12 discount; but it has certain features in common with a
13 trade discount.

14 As to the statement which has been made in
15 certain briefs, and which originates in only one
16 document I am aware of, the book written by a gentleman
17 called Patterson, the word "rebate" has only legal or
18 economic significance as it is paid to a person who is
19 highly adverse.

20 It is quite conceivable that a large share-
21 holder in a given corporation might buy that corporation
22 products and obtain a discount because he bought them,
23 under certain fixed circumstances.

24 There are sorts of similar types of things that
25 could come to one's mind. I do not think that this
26 necessarily is the test of whether a discount is truly
27 a discount or not. I come back to the fundamental point
28 we are making, that we were speaking about processes of
29 what appear to be price adjustments.

30 If ordinary companies adjust prices within the



1 fiscal period, by the grant of rebates, discounts or
2 allowances of one kind or another, then these relate to
3 the prices they charge for their product, so that when
4 the accounts are taken off, the overall income will be
5 lessened and this affects their tax position. The
6 significance of the cooperative adjustment is that it
7 occurs after the accounts are closed or at least after
8 the accounts are closed on a preliminary basis; but in
9 essence the same thing occurs, Mr. Chairman, whether the
10 motive has been to increase the business or to pass out
11 the gain. Ultimately it is done through a process of price
12 adjustment.

13 MR. STEWART: Now, Dr. Staples, when you were
14 talking a few moments ago about the distinction between
15 business with members and business with non-members, you
16 referred to the nature of the relationship between the
17 cooperative and its members. This seems to me to lead
18 right into the second justification for this deduction,
19 which, as I understand it, is that the cooperative in
20 effect carries on as an agent for its members.

21 I think I see that approach reflected in the
22 joint brief in Appendix B, and in paragraph B4. At the
23 end of that paragraph there is a sentence which reads
24 as follows:

25 "Despite its separate legal
26 existence, a cooperative does not
27 earn income on its own behalf and
28 virtually all the savings from
29 operations flow back to the member-
30 users in proportion to their use



1 of the services".

2 Then if I look at the brief of the Cooperative
3 Wheat Producers, at page 116, about half way down through
4 paragraph 194, where you are discussing patronage
5 refunds, I find this:

6 "This, they ---"
7 that is, the patronage refunds --

8 "become the practical equivalents
9 of income earned by the individual
10 members in carrying on their
11 separate businesses in the same
12 manner as if the member operated
13 this portion of his business
14 activity through an unincorporated
15 cooperative or partnership."

16 If those two quotations reflected to some extent at
17 any rate this agency approach, I would like to ask you to
18 comment on two or three points which we have touched on
19 to some extent. I think we have already agreed that a
20 member of a cooperative corporation is not liable on the
21 contracts of the corporation, he is not liable for the
22 wages of the employees of the corporation.

23 To use another example which I do not think I
24 have used before, I take it that if a corporation
25 sustained losses in a particular year the individual
26 members would not be personally liable as a matter of
27 law. Therefore, their losses are for the claim of the
28 creditor. This I am well aware is getting into the
29 legal sphere and you may well wish Mr. Blair to deal
30 with that one.



1 MR. STAPLES: Thank you.

2 MR. BLAIR: Mr. Chairman, first of all, I have
3 been reminded from behind that I gave a not completely
4 accurate answer to the Chairman when I said that the
5 patronage dividends are related to the distribution of
6 surplus. I think it is undeniable to say that the
7 fact that patronage dividends are paid attracts customers
8 and patrons to the cooperative and it is one reason why
9 members join cooperatives -- so I suppose it could be
10 said in some respects that the patronage dividend is
11 not unlike a discount.

12 THE CHAIRMAN: It is taking things round the
13 full circle, is it not?

14 MR. BLAIR: It is, Mr. Chairman. Mr. Stewart,
15 we are trying to provide analogies and we hope helpful
16 examples for the Commission. We obviously do not rest
17 this case on any assertion that the typical cooperative
18 is the agent of its members in the traditional sense of
19 principal and agent, except of course for the important
20 group of cooperatives which are known as agency
21 cooperatives where this position has been recognized by
22 the Supreme Court and by the Exchequer Court. In the
23 case of the usual type of cooperative, what we are suggest-
24 ing is that there is a great similarity in many respects
25 between their operations and the relationship between
26 principal and agent. It is true, and no one has ever
27 asserted that it is not true, that certain attributes of
28 agency do not apply. The member of the cooperative is
29 not going to be legally responsible for the losses which
30 are suffered by the cooperative. But if he wishes that



1 cooperative to continue in business and to serve him,
2 he and his fellow members will have to put up the fund,
3 or it will disappear.

4 MR. STEWART: Mr. Blair, let me put this to you,
5 because this has legal connotations, too. What really
6 is the difference between members of a cooperative and
7 shareholders of an ordinary company in this respect?
8 Are both groups not joint venturers through a corporation
9 in a business capacity?

10 MR. BLAIR: I would not disagree with that but
11 I would say immediately that the difference lies in the
12 motivation and the method they employ.

13 MR. STEWART: Yes. This is something we are
14 obviously not going to decide now, but it may be that
15 questions of motivation and method are not conclusive
16 when it comes to taxation. If a particular result,
17 incomewise, flows from an activity which is carried on,
18 then the result should be taxed, no matter what the form
19 or the motivation of the taxpayer.

20 MR. BLAIR: Of course, the whole basis of our
21 submission is that that should not be so and that,
22 regardless of the legal definition of income in any
23 given circumstance, the organizations represented here
24 should be taxed differently, because they are different;
25 and these questions particularly of motive and operation
26 cannot be ignored.

27 MR. STEWART: Let me put another question to
28 you along this same line. Is what you say not open to
29 this attack, if you like, that what you are attempting
30 to do for tax purposes is pierce the corporate veil of the



1 of the corporation. In other words, your cooperative
2 is carrying on business in the corporate form. It has
3 all the advantages of the corporate form.

4 I suppose that the fact that the legislation
5 in many cases requires these cooperatives to be
6 incorporated, indicates that the corporate form is
7 almost essential in all the circumstances.

8 To carry on in the corporate form, you have the
9 benefit of the corporate form. The corporation in
10 question is earning what I think may be called income,
11 although you may prefer to call it gain but then, when
12 the fiscal period is over and the smoke all clears away
13 and you find that in a particular year there has in fact
14 been profitable activity carried on, you say: "Now, for
15 tax purposes, let us forget all about this corporation
16 and let us assume that we have an amorphous mass which
17 may be 60,000 people, who are carrying on business in
18 partnership.

19 MR. STAPLES: Let me see if I can clarify this
20 a little, Mr. Stewart. I would like to take a simple
21 example. You may think it ridiculously simple but let
22 me try to see if it will illuminate the point a bit.
23 You and I are separate legal forms.

24 MR. STEWART: I hope so.

25 MR. STAPLES: I make an agreement with you to
26 purchase an automobile for me and I provide you with
27 up to \$2,000.00 to buy this automobile. The arrangement
28 we have says that if you have any money left when you have
29 bought this particular automobile, you will give it back
30 to me. Now, suppose I make an agreement with Mr.



1 Carter to buy an automobile for me and I give him
2 \$2,000.00 to buy it with and suppose that the agreement
3 in his case is different. Suppose it says in effect
4 that if he has anything left he keeps the balance for
5 his expenses or whatever he wants to do with it.

6 The kind of agreement I have with you is the
7 kind that a member has with his cooperative. He sets
8 the cooperative up to perform this service. If you find you
9 can
/get me an automobile costing only \$1,900.00 you must give
10 me back \$100.00 and while it is in your possession it
11 certainly is not your income. But in the case of Mr.
12 Carter, if the automobile he gives to me costs only
13 \$1,900.00, he has got \$100.00 for himself, which he
14 probably should report on as income. If he does not do
15 so, I will reveal this and he will be caught.

16 THE CHAIRMAN: I think that probably in my case
17 I would share the burdens of government. A portion of
18 the \$100.00 profit that it made is a portion which
19 pertains to all the other income of the country. If Mr.
20 Stewart is in business in buying automobiles and he has
21 made a gain for somebody to the extent of \$100.00 -- and
22 I think it is a gain, it seems to me that it is a gain,
23 in my case it is a gain -- I do not exactly see why Mr.
24 Stewart or his principal or somebody should not carry
25 their share of the cost of government.

26 MR. STAPLES: You are really raising another
27 question.

28 THE CHAIRMAN: As I see it, it is an important
29 question.

30 MR. STEWART: May I say this, and let me treat



1 Dr. Staples proposition not as a question but as a
2 comment. My comment will be this, that no one will
3 suggest that certain legal relationships may be entered
4 into which constitute what we call an agency, and that
5 if you have an agency relationship in the strict sense,
6 then there are certainly legal consequences for the
7 principal and certain legal consequences for the agent,
8 and the agent may emerge only with a commission, on which
9 he is taxable.

10 What I think we have to consider here is
11 whether the relationship between a cooperative corporation
12 and its members, taken individually or collectively in
13 any particular case, is legally an agency or something
14 else. There are many difficulties in connection with
15 this particular subject. It seems to me that one of
16 the difficulties is that here, granted that your
17 corporation or cooperative corporation is doing things
18 for its members, doing things for its customers,
19 part of the complication or difficulty I think is due
20 to the fact that there is to a considerable extent an
21 equation or an identity between the members and the
22 customers, ^{which} this corporation does claim for all its
23 members, and there may be a very considerable number of
24 them. What I think you have to do, if you put forward
25 the agency approach, is this. As Mr. Blair says, agency
26 in law is one thing but what the ordinary man may
27 regard as agency may be something quite separate. What
28 you have to do is look at the situation as a whole, in
29 order to determine whether your cooperative corporation
30 is really acting as an agent for its individual member



1 or whether, having regard to all the circumstances, it
2 is not in business as a principal, the principal being
3 a separate person from the member, but the principal
4 obviously doing what it does do, for the ultimate benefit
5 of the members.

6 The ordinary corporation in this regard is
7 in a somewhat similar position. It carries on as a
8 separate person. It is carrying on for the benefit of
9 its shareholders but I do not think it would ever be
10 seriously suggested that it was an agent for its share-
11 holders.

12 MR. STAPLES: Mr. Stewart, I did not perceive
13 that my example would be complicated by reference to the
14 agency type organization. I see your point. I had
15 reference to the fact that there is a clear arrangement --
16 I almost used the word "agreement". It is found in the
17 legislation or the by-laws or the charter. It is added
18 as well as a legal obligation on the cooperative, though
19 a separate legal entity, to pay the surplus back to the
20 member. It does not have a choice in this, and you have
21 no choice in this one.

22 In practice, I would agree that you would be
23 deducting part of the \$100.00 for the expenses you had,
24 or may have had, in regard to the automobile; but I was
25 reducing the example perhaps to ridiculously simple terms,
26 to illustrate that this is not your money at all, it is
27 mine.

28 MR. STEWART: Dr. Staples, let me put this to
29 you. Suppose I find in Ottawa today that a particular
30 retail shop is for sale. Suppose I go to you and say I



1 would like you to finance me so that I can buy the company
2 which runs this retail shop. Now, this is not a
3 cooperative and perhaps I am going to run into personal
4 finance. Let us suppose I go to Mr. X for my finance
5 and I say to him: "Mr. X, if you will finance me on this,
6 I will pay you all the profit that store earns". Now,
7 if I carry on, what I do is I buy the shares of the
8 retail shop. Then, at the end of my first year of
9 operation or its first year of operation under my control,
10 let us suppose that the operation has been in the black.
11 Mr. X comes along and says: "Now, I want your profit."
12 I say to him: "The income tax collector seems to be taking
13 an interest in this situation; I am quite prepared to pay
14 you the profit I have left after income tax has been
15 paid by the corporation." He may say to me: "You just
16 tell the income tax collector that that is not the
17 company's profit at all, that has got to be paid to me
18 because you have agreed to pay to me." It may be that
19 the income tax authorities would accept this as an
20 answer to their claim; but it would surprise me.

21 What I am putting to you is that I am not at
22 all sure that the fact that you may have agreed, or that
23 you may even be obliged, to distribute amounts to your
24 members by way of a patronage refund, is material when
25 it comes to the question of whether income tax should
26 be paid on the activity which you have carried on.

27 MR. McDONELL: May I ask Mr. Stewart would he
28 put the same interpretation on that, if he bought this
29 business on his own?

30 MR. STEWART: I think that is a fair question.



1 There again, the income tax authorities would obviously
2 have to consider the overall arrangement. The income
3 tax authorities would certainly expect tax on the
4 income from the operation. I think that what you are
5 implying, Mr. McDonell, and I think it is a perfectly
6 fair comment, is that the waters are muddied here to
7 some extent by the fact that we have corporations
8 intervening and that in this country at the present time
9 at any rate there is double taxation of corporate
10 income.

11 MR. McDONELL: Of a corporate company.

12 MR. STEWART: Ordinarily there is. Yes.

13 MR. McDONELL: I wonder if I could interrupt
14 at this point. Is not this the reason why we are in
15 controversy on this previous discussion -- it is because
16 the whole thing is whether this cooperative is a
17 corporation. If the cooperative is not a corporation,
18 there is no problem.

19 MR. STEWART: It seems to me that it is one of
20 the real causes of difficulty here. What concerns me in
21 part about this overall problem is how you can have a
22 corporation for some purposes and then disregard it for
23 other purposes.

24 MR. BLAIR: Mr. Stewart, I have been sitting
25 here and wondering how I would address you on this,
26 recognizing your well known expertise on matters of
27 corporation and corporate theory. I make that
28 reservation, so that I will not get into too much trouble
29 if I get over my depth.

30 For a long time, the courts have looked through



1 the corporate personality of different types of
2 corporations. They seem to have had very little
3 difficulty in doing this. Dealing with mutual insurance
4 companies, there are a number of leading cases where they
5 have said that ^{while} these companies are corporations and
6 they have looked at them and said in fact they are not
7 really corporations of the type which are ordinarily
8 dealt with by the courts. Thus you have these decisions
9 which culminated in the decision of the Stanley Mutual
10 Insurance case, by our own Supreme Court.

11 We are not trying to suggest to this Commission
12 that we backtrack on all these complicated theories and
13 concepts of what is a corporation and what is not termed
14 a corporation. We take our stand on this submission,
15 on the finding of the 1945 Royal Commission that, in a
16 legal sense, cooperatives carrying on business as they
17 do, do earn what is called income. But we are taking a
18 pragmatic, and I hope a practical, position before the
19 Commission. Because cooperatives are the kind of
20 organization they are, it is right and proper to have that
21 income reduced by the patronage payments they make.

22 I may be speaking against the best interests
23 of my profession in suggesting that this is perhaps the
24 only way in which this complicated matter can be approached
25 in terms of what the practical results may be, rather than
26 in terms of the technical application of rules of agency,
27 partnership or any other legal concept.

28 MR. STEWART: Yes. Well, when you put this on
29 a basis of equity or practical approach, then of course
30 it becomes an entirely different matter. What I have



1 been attempting to do is make sure that I understand the
2 arguments, first of all on this price adjustment theory,
3 and secondly on the agency theory.

4 MR. BLAIR: We say, Mr. Chairman, that they
5 act in some respects like agents, but we have not really
6 put a great deal of stress in these submissions, on the
7 so-called agency theory.

8 MR. STAPLES: Now, Mr. Houde.

9 MR. HOUDE: I should add a short comment on this.
10 When we discuss all this, should not we keep in mind that
11 there is a time element which disrupts our thinking?
12 At the year end, in a cooperative, the corporation, the
13 enterprise, prepares financial statements and goes to the
14 annual meeting. Should not we consider this? Is it not
15 a fact that those financial statements in a cooperative
16 constitute an interim report to the association which
17 owns the enterprise and controls it and operates it?
18 It is an interim report presented to the shareholders as
19 patrons at this time, asking what to do with those
20 figures, which are not final.

21 In fact, the enterprise is saying: "Well, you
22 are the owners, we have too much money in here, what do
23 we do with it, how do we treat it in our books of
24 account?". Then the members of the association decide
25 at this moment that as patrons they will adjust the price
26 policy that has been followed. Then the financial
27 statements can be finalized and produce a result, from
28 which the owner as such, the shareholder as such, can
29 decide what he does. If the annual meeting could be
30 held on the day of closing the books, the whole situation



1 would be different.

2 MR. STEWART: Well, Mr. Houde, I am not sure
3 that it would be different. If you are considering the
4 question of whether a particular corporation has made a
5 profit from a business operation, let me remind you of
6 this. There are different types of ordinary corporation,
7 with which I cannot profess to be too familiar, but I
8 think this is true in England of the English company, and
9 I think it is true of some of our Canadian companies which
10 are formed by registration rather than by Letters
11 Patent, that it is there quite the normal thing for the
12 decision as to dividend to be made by the shareholders
13 in general meeting. In other words, I think I am correct
14 in this, that the directors of an English company, at
15 the annual meeting of the shareholders, which of
16 course takes place long after the material fiscal period,
17 propose to the shareholders that the dividend of a
18 particular rate be paid. The shareholders presumably are
19 able to agree or disagree with that. I think that in the
20 normal course they agree and just exactly how far they
21 are permitted to go, as a matter of law, in calling for
22 the distribution of the whole of the earnings, or a
23 larger portion or smaller portion of the earnings, I
24 cannot tell you. I do not know that. I do not think
25 that in this regard there is a really essential
26 distinction between your type of corporation and the
27 other. It seems to me that really what this may come
28 down to is this, that you claim that you have what is
29 essentially, regardless of the corporate form, a
30 different type of economic organization from that of the



1 ordinary corporation with share capital and that the
2 taxation rules which apply to one form of economic
3 organization need not necessarily apply to the other.
4 Would you care comment on that, Mr. Blair?

5 MR. BLAIR: Well, I think that as a general
6 principle one might say that there are exceptions made
7 at many places in the Income Tax Act, as it now stands
8 and possibly as it will be in the future, to recognize
9 differences between the different types of economic
10 organization. To some extent the cooperatives are
11 taxed as if they were ordinary companies but to the
12 extent that they follow the practice of paying patronage
13 refunds, they are not.

14 MR. STAPLES: As a supplement to that, may I
15 add a little more. It seems to me that part of the
16 difficulty is this. Perhaps you had better continue
17 for a minute. I will come back to it.

18 MR. LAIDLAW: May I bring out a couple of points
19 on the agency relation between the member and the
20 cooperative, just to strengthen this relationship.

21 First of all, let us take some of the purchasing
22 cooperatives. Let us take a farmers supply cooperative.
23 I think we would find in actual practice that in many
24 of the cooperatives the manager or the organizer in a
25 business organization knows in advance what the members
26 want in a particular line. The organization is already
27 instructed by the members to procure this line and in
28 certain specified formulas, and so on.

29 For example, it is not uncommon at this time
30 of the year for the farmer supply cooperatives actually



1 to get the advance orders from their members for
2 fertilizer, so that the supplies which they put in their
3 store are not put in there, so to speak, for speculative
4 sales but rather they are put in there on pre-order by
5 the members.

6 In the same way, the cooperative wholesaler
7 actually gathers together orders of certain line, pre-
8 determined by the member cooperatives. This again is
9 based on the needs of the members, so that this agency
10 relationship is maintained all along the line.

11 Similarly in the consumer cooperatives there
12 are such things as advisory committees of the members,
13 women's guilds, and so on. They sit down with the
14 manager and advise the manager on brands and lines and
15 qualities and so on. Therefore, this whole relationship
16 between the member and the cooperative is a very close one.
17 I think that in all of these examples the agency
18 relationship is borne out. Similarly in the marketing
19 cooperatives.

20 A marketing cooperative, for example, dealing
21 with livestock or grains, does not go ahead in a
22 speculative way and build warehouses and facilities.
23 They do that only after the members themselves have said
24 to them: "We need this kind of warehouse, this kind of
25 plant." They instruct the board, very often in member-
26 ship meetings, to go ahead and build that kind of plant,
27 to provide those facilities and give that particular
28 service. Therefore, it seems to me that in both
29 types of organization this relationship of agent is
30 always apparent.



1 MR. STEWART: Thank you, Dr. Laidlaw. I would
2 like to ask, if I may, what your reaction is to a
3 suggestion, or perhaps I should simply say "statement",
4 which was made in the brief which was filed with this
5 Commission in August by the Alberta Wheat Pool.

6 There they were considering the question of
7 the deductability of patronage dividends. They were
8 talking about the price adjustment theory. They
9 suggested this, in effect, that when you came to
10 consider the tax treatment of the income of a cooperative,
11 you should divide the income into two parts, that you
12 should concede that the cooperative was carrying on a
13 business in which it employed capital, and that you
14 should attribute part of the earnings to a deemed return
15 on that capital employed, and the balance of the income
16 should be dealt with on the price adjustment theory.

17 Whether the Alberta Wheat Pool had in mind in
18 that regard something like the present provisions of the
19 statute, which call for taxation on the three per cent
20 of capital employed, I do not know.

21 However, at page 75 of their brief, at the end
22 of paragraph 177, they said this:

23 "Hence, similarity of tax
24 treatment requires that the price
25 adjustment portion of a cooperative
26 member dividends be deductible from
27 the taxable income of the cooperative
28 and the income ascribable to a
29 return on equity capital be taxed
30 in the same way as for ordinary



1 corporations."

2 That is the end of the quotation, but they went
3 on in what seems to me to a very interesting way to deal
4 with that whole situation.

5 I wondered whether, as far as you gentlemen are
6 concerned, there is any thought that this problem might
7 be dealt with on some sort of a compromise basis. That
8 is, that the patronage refund deduction be permitted to
9 some extent, but that the cooperative itself be taxed on
10 a portion of its income which is related to capital
11 employed.

12 Let me say that this is not a trial balloon
13 being flown by the Commission. This is just an idea that
14 occurred to me from reading the Albert Wheat Pool brief.
15 I am just wondering to what extent the statement that is
16 made there reflects the thinking of the movement as a
17 whole.

18 MR. STAPLES: I could try a very general answer,
19 Mr. Stewart, and there are others who will want to comment
20 in the light of their greater knowledge of what is
21 involved in this.

22 It would be our view that the provision of
23 capital is only one sort of contribution which the members
24 make to the success of a cooperative enterprise. It is
25 an important contribution, I agree, but it is only one
26 form. The members contribute voluntary effort in many
27 different ways. They serve on Boards of Directors and / committees.
28 They take their goods home at their own expense. In
29 others there may be a delivery charge. The members
30 are involved in the enterprise in different ways.



1 We see no reason why the capital that they give
2 to the organization should be treated in any other way
3 when it comes to the distribution of surplus, than anything
4 else they provide. We would find it difficult to find
5 some basis for attributing some of the income to
6 capital.

7 MR. FOWLER: May I comment on that? This is
8 like trying to find which is the important leg of a three
9 legged stool. As has been said, there are many
10 contributions the individual must make to the success of
11 the cooperative if it is to flourish and do the job it
12 was set up to do. One does not say "this is the one"
13 or "that is the one".

14 I ran a lot of cooperatives in the last thirty
15 odd years. The one thing that is important is the patron.
16 I can get in with very little capital, I can go out and
17 pay cheques and do all that, but I cannot get along
18 without patrons.

19 I would like to give some further illustration,
20 as if you lead into this avenue you will come up against
21 these points. We see our refineries which are run by
22 large power plants. They are put there to lower the cost
23 of producing the goods. In bygone days these things were
24 done by a horse or a mule. We have different tasks
25 today. There has been a great change in the history of
26 these things and it would take half a day to tell you
27 something about it.

28 We think this is what forms the farm power
29 project. That is what it is. The only product we sell
30 to non-members is the by-product. We do not bid for



1 government business. It is quite profitable but we do not
2 want it. This is what we were set up to do, and we
3 do this. We sell to non-members only what we have in
4 surplus.

5 If we are to say that we are going to pay a
6 tax because we use capital, I think you would have to go
7 back on the farm, because there are some farmers who
8 have power plant on the farm, and you would have to say
9 that to them. They are growing agricultural products.
10 They may not have much margin on them. It would mean
11 "this is what you are doing and in order to do this you
12 are using capital, you are using this mule or this
13 horse and when you set up your income tax you must see
14 that part of the capital comes in as income represented
15 by the horse or the mule". I think that is a fantastic
16 idea.

17 MR. McDONELL: I have a comment of a different
18 type. This is in regard to capital employed in a
19 cooperative. The interest on capital is subject to
20 income tax. If you tax this as has been proposed in
21 the Alberta Wheat Pool brief income on return on capital,
22 income on return on patronage, you are merely saying that
23 this income should be split in two for tax purposes, one
24 subject to double tax and one subject to single tax.
25 And therefore you have to examine the authenticity of the
26 double tax itself. Why should a member be subject to
27 double tax, with no relief of the type granted to a
28 private corporation, when no other taxpayer in Canada is?

29 The whole question of three per cent capital
30 falls down in principle, because of the double taxation,



1 applied at a time when we had double taxation applied
2 in corporations, which does not exist beyond a certain
3 income level. The whole picture of taxation is changed
4 there.

5 To suggest something that adds to this double
6 taxation feature in cooperatives is just contrary to
7 everything which has gone on in this field in the last
8 number of years.

9 THE CHAIRMAN: Your remarks pertain only to
10 producer cooperatives.

11 MR. McDONELL: Yes, and supply cooperatives and
12 supply producers, which is 75 per cent of the consumers
13 field, so for all practical purposes you are dealing with
14 all cooperatives.

15 MR. STEWART: Mr. McDonell, I think your point
16 about the difficulty of dividing the income is probably
17 well taken. It seemed to me that the Alberta Wheat Pool
18 was trying to make a constructive suggestion, but I must
19 say that it would seem difficult to determine what the
20 proportion of any division of this sort should be and what
21 rate of return should be attributed to the capital
22 employed.

23 MR. HARROLD: Mr. Chairman, perhaps I might just
24 have a word. It refers to our submission in August.
25 I would ask for comments from some of the other
26 organizations represented here.

27 I hesitate to start this, because this is quite
28 a long section, but anyone in this group who has not
29 read the complete section referred to will probably have
30 difficulty in answering the question in the way that you



1 put it.

2 Therefore I would like to refer to this section.
3 I suggest that it starts off by talking about this
4 suggestion by other people on this tax theory. In the
5 bottom of the first paragraph it refers to the assumption
6 that dividend payment on share capital and payment on
7 patronage dividends are alike. As far as we are
8 concerned this is something that is propounded. Then,
9 in a further section, we comment on trying to separate
10 the two components of the cooperative patronage dividends
11 ascribable to patronage and to capital, and the rate that
12 should be applied.

13 We set out a number of sections there. We
14 suggest the difficulty in allocating the proper percentage
15 that can be applied to these two components. The
16 actual fact is that, as far as we are concerned, and I
17 suppose this may be true of a number of other cooperatives
18 -- I might say, before I go on to the next point a
19 normal rate of return, or a rate of return recognized on
20 equity, can be, as far as the cooperative is concerned,
21 cut down to zero.

22 MR. STEWART: Yes, you do suggest, as I
23 recall, that if an arbitrary rate of return were being
24 established, it should take into account the special
25 relationships between members of the cooperative and the
26 cooperative, and the fact that they are willing in many
27 cases to put money in at a low rate of return.

28 MR. HARROLD: This is the fact. We may
29 confuse patronage dividends being paid to a member. It
30 is not in any way related to the amount of equity capital



1 that the member may happen to have in that cooperative
2 at that particular time. It is the question whether
3 there is any part of the patronage dividend related to
4 equity capital, as far as our relationships are concerned.

5 MR. STEWART: Quite. Well, now, I think it
6 might be worthwhile, if I refer at this point to Mr.
7 McIvor's article again. I had in mind in particular the
8 last paragraph of the article, at page 38.

9 He has been discussing this question of the
10 deductability of patronage dividends, and he says this:

11 "To conclude with a comment
12 on Section 75(1), the prospect of
13 amending or expunging its provisions
14 is obviously not one which a
15 Canadian government is likely to find
16 inviting. There is nevertheless
17 a very good case, on grounds of its
18 effects upon equity, competitive
19 advantage, efficiency in resource
20 allocation and upon public revenue,
21 for a re-examination and re-
22 assessment of this particular piece of
23 legislation. It is in fact discriminatory
24 and its removal would represent neither
25 the complete disaster (to the
26 cooperatives) nor the complete solution
27 (for the 'private' trade) that it is
28 commonly held to represent."

29 I will stop there, for the moment at any rate.
30 What I have read that for is to attempt to make it clear,



1 perhaps unnecessarily, that in the opinion of this
2 writer, who was apparently writing for the Canadian Tax
3 Foundation, which is I think a non-partisan group, the
4 cooperatives have a real onus on their heads in
5 defending this particular provision of the Tax Act.

6 I have gone through these briefs, having
7 regard to what Mr. McIvor has said, and perhaps it will
8 simplify and shorten our discussion if I indicate to you
9 my understanding of some of the points that you make
10 which are designed to refute Mr. McIvor's propositions
11 or designed to make out a case for the continuance of
12 the present tax situation.

13 If you look at the joint brief, at pages 35
14 to 45, you will see set out there arguments in support
15 of your tax proposals, which of course include the
16 continuance of the patronage refund deduction.

17 In paragraph 70 you make the point that
18 cooperatives should be taxed on a different basis from
19 ordinary companies because they are different in
20 structure and operation.

21 Then in paragraph 83 you suggest that if this
22 deduction were eliminated you might be forced to carry
23 on business as if you were a completely different type
24 of organization.

25 Then in paragraph you say that this change
26 would retard the growth of the cooperatives and "lessen
27 their ability to improve the income of farmers and
28 fishermen and impede their efforts to provide a
29 rational and stable system of marketing for primary
30 products".



1 Then you deal in paragraph 84 and 85 with the
2 possibility that you might be forced to price out. That
3 is a matter which I will come back to later.

4 In paragraph 87 you point out that any change
5 in this deductability feature would "jeopardize coop-
6 erative financial stability" -- particularly, I take it,
7 if you had to change your pricing policies.

8 I do not suggest for a moment that those are
9 the only arguments in the joint brief, but they are
10 some of them.

11 In the brief of the Federated Cooperatives,
12 you deal with the defence of this deduction, at pages
13 70 to 78. In paragraph 190 you say that the basic
14 issue involved is whether or not society shall permit
15 to operate within the economy without tax penalty a
16 non-profit corporation, conducting business commercially
17 on a large or small scale and in competition with that
18 segment of the economy which has been described as the
19 investor owned business.

20 You point out in paragraph 201 that patronage
21 dividends can be paid by people other than cooperatives.

22 In paragraph 204 you indicate that if the
23 cooperatives were taxed further, this would minimize
24 the benefits of cooperative action upon those who are
25 seeking their needs and requirements through this self-
26 help form of enterprise.

27 Then, to take another one from the Cooperative
28 Wheat Producers brief, at page 96 you point out in
29 paragraph 157 that there are a good many cases where
30 special tax treatment is given in the existing



1 legislation to particular types of taxpayers, and that
2 there is also quite a number of types of transaction
3 which receive special treatment for tax purposes.

4 In paragraph 158 you refer to the point which
5 is also made elsewhere, that these cooperatives are
6 peculiarly Canadian, that by their nature they are owned
7 by Canadians and that they are not the type of business
8 enterprise which can be taken over effectively by
9 outside interests, that is, non-Canadian interests.

10 I have referred to these points simply to
11 show that we have attempted to appreciate the arguments
12 that you put for a continuance of this patronage
13 deduction.

14 I think it would be only proper now to ask
15 whether there are other major points which in your view
16 the Commission should have in mind or take into account
17 when it is considering this particular question of
18 deductability of patronage dividends.

19 MR. STAPLES: Thank you, Mr. Stewart. These
20 sections in the brief to which you refer, and others,
21 are really quite a complete review of our position on
22 the point. I would think some of my friends will want
23 to add more emphasis. I have only one comment. It is
24 that a cooperative and an ordinary corporation are, as
25 I said, fundamentally different in important ways.
26 This is the basis of our difficulty in drafting an
27 Income Tax Act, it seems to me.

28 Canada -- and we are not opposed to this
29 attitude in principle -- tries to treat them all alike.
30 The Income Tax Act in its most important section does



1 not mention cooperatives at all. In theory it does
2 treat them all alike. The Act bears on the cooperative
3 and the ordinary corporation differently because these
4 corporations are different and they operate in a
5 different way. This is the basis of our difficulty.
6 We are faced with continuing to try to draft an Act
7 which will apply to that and which will be reasonable and
8 equitable, or else separate cooperatives out somehow by
9 definition and give them more appropriate treatment.

10 This is really the crux of it. I should
11 think the McDougall Commission in 1944-45 had taken a
12 different attitude on this. It does not seem to me that
13 there is an easy solution of it.

14 In principle, we would not be in favour of
15 separate and different treatment. We think that probably
16 the present situation is a sound one, where cooperatives
17 are not treated differently because they are cooperatives.
18 I am leaving out the new cooperative in its first three
19 years, of course. Perhaps we will be coming to that.
20 They are not treated differently because they are
21 cooperatives. Any business is treated in the same
22 way if it does the same thing with the same type of
23 money. This is what we are coming to, and this seems
24 to us to be a pretty good answer to it in terms of the
25 principle involved in it.

26 I think there is no point in my taking up
27 further time on it. There are others who can speak
28 to the question more effectively than I can. Perhaps
29 Mr. Blair would add a word.

30 MR. BLAIR: I do not want to say too much, but



1 I think we should be clear on one other point.

2 Mr. Stewart asks are these all the points to be
3 made. I think he has fairly summarized the main points
4 we have made, as it were, in answer to certain items
5 which have been made by other people.

6 There is one point, mainly, which we do not
7 agree with. That is that this present tax situation
8 produces inequity nor do we agree with the contention made
9 by Mr. McIvor and made by others that there has been
10 any obvious observable unfairness resulting from the
11 present tax system.

12 We have devoted a large part of these
13 submissions in attempting to show ^{how} this tax system has
14 worked out, and we submit for your consideration that it
15 has been fair and just in its results.

16 MR. McDONELL: If I might add my contribution
17 here -- in your listing of quotations you left out
18 paragraphs 194 to the end, of the Canadian Cooperative
19 Wheat Producers brief. I would refer you particularly
20 to those sections, partly in reply to Mr. McIvor.

21 In your opening statement about Mr. McIvor
22 and his article, you talked about the unfair treatment
23 of cooperatives. I think it is generally recognized
24 today that if corporations income were all taxed in the
25 hands of the shareholders, that no corporation tax, with
26 more double tax, would probably be collected, because
27 it would be understood as income of the corporation.
28 Corporations, partnerships, single proprietors, personal
29 corporations, are not so taxed as corporations. It is
30 not logical, however, to say that all these latter types



1 receive special tax treatment.

2 Mr. McIvor is in effect saying that they do,
3 because they are not taxed the same as the corporation.

4 In your opening remarks earlier in the morning,
5 you mentioned that both types of business, the
6 corporation and the cooperative, carry on business and
7 that both types are incorporated. Well, speaking here,
8 I would like to suggest to you that many, if not a
9 majority, of the competitors of cooperatives are not
10 incorporated, or they are incorporated by closely held
11 groups of individuals for the purpose of limited
12 liability and they have the ability to reduce their
13 corporation tax to nil, and many of them do so, through
14 payment of salaries to themselves. It is their own
15 choice, because of tax advantage or otherwise, to decide
16 one way or the other.

17 These represent, not necessarily in total
18 volume of business but certainly in competitors, the
19 largest competitors of cooperatives -- it is not the
20 large chain store and not the large grain corporation.

21 I mentioned also earlier the fact that the
22 three per cent capital employed feature does represent
23 an element of double taxation. I do not understand how
24 Mr. McIvor can suggest that there is unfair tax
25 treatment of cooperatives in the sense that he means
26 that there is a double tax feature here that does not
27 apply to anyone else and that the double tax feature so
28 applied can give great relief to the corporation and no
29 relief is granted here.

30 MR. STEWART: Do you not think that what Mr.



1 McIvor would say on that point is something like this,
2 that in the case of the cooperative there may be a
3 double taxation to the extent of three per cent on
4 capital employed, in the case of its competitors there
5 is double taxation on the whole of the earning?

6 When you say that double taxation does not
7 apply to anyone else, perhaps I have exaggerated that
8 statement, but I take it that you are referring to the
9 dividend tax graded which is now available to shareholders
10 of Canadian companies.

11 Furthermore, I would expect that, if the
12 patronage refund of the cooperative ceased to be
13 deductible in the computation of the cooperative for
14 tax purposes, one would have to consider, if this is
15 not already the fact, the extension of the dividend
16 tax graded to any distributions which are made by
17 cooperatives to their members.

18 Let me ask you this. I am not talking now
19 about a patronage dividend but what you may call an
20 interest payment on shares of a cooperative -- in
21 practice, is the member now entitled to the dividend
22 tax graded in respect of that portion of what he
23 receives.

24 MR. McDONELL: In connection with the
25 cooperative.

26 MR. STEWART: So if I buy a share in a cooper-
27 ative for \$10.00 ---

28 MR. McDONELL: I would like to answer this.
29 When you refer to the share capital of a cooperative.
30 When he gets his share capital back, on a revolving



1 basis, which is the normal basis, with no interest or
2 dividend on the share capital.

3 MR. STEWART: If this patronage refund
4 deduction were eliminated so that the amount which
5 remained for distribution to the members of cooperatives
6 was out of tax paid earnings, then I should think very
7 serious consideration would have to be given to ensure
8 that the member of the cooperative should receive what
9 you now call a patronage dividend, a patronage refund;
10 he should be entitled to the dividend tax paid.

11 MR. McDONELL: Would you mind suggesting that to
12 Mr. McIvor? He will not agree with it. He refused to
13 consider it, in discussion with him. But are you not
14 defeating this whole thing? There are, for all practical
15 purposes, no income brackets in cooperative members
16 where the dividend does not offset the tax paid. If it
17 were suggested that the tax be given on patronage
18 dividend, cooperative people would probably be better
19 off, but they do not want that condition, as they prefer
20 to carry on in the way they have carried on for
21 generations.

22 MR. STEWART: Mr. McDonell, I am not concerned
23 for the moment with the mathematics. What we are trying
24 to find out at the moment is what is the fair thing to
25 do.

26 This discussion has been very helpful. I
27 appreciate that in the Cooperative Wheat Producers
28 brief, you have discussed very generally the question of
29 cooperative income. You may be very sure that this
30 Commission is alive to the importance of the question



1 whether there should be double taxation, the basic
2 question of just how cooperative income should be dealt
3 with in Canada.

4 MR. McDONELL: All we ask is that the cooperatives
5 be kept in line in relation to the general studies of the
6 corporation. We are of opinion that the problems of
7 cooperatives that have been raised, all hinge on the
8 problems of the private corporation. The problem is
9 that of the private corporation and not of the cooperative.

10 MR. STEWART: This is a bit of digression, but
11 let me intercept and ask you this question.

12 What would your reaction be to the propositions
13 that the ordinary corporation be permitted to deduct
14 dividends to its shareholders in the computation of
15 corporate income? I should perhaps tell you that,
16 although you may be aware of it, this proposition was
17 put to us by the United Grain Growers, among others. They
18 put it to us because of their special share capital
19 position. I put it following their suggestion to the
20 Northwest Line Elevators Association, for comment.

21 If my recollection is correct, they thought it
22 was a poor idea, because of the effect it would have on
23 revenue. It occurred to me, after reading the United
24 Grain Growers brief, that if that particular change in
25 the tax law were made, the tax position of ordinary
26 corporations and cooperatives would be much closer.

27 MR. McDONELL: No. I, of course, cannot
28 comment for the organizations that I represent. I can
29 only give my own personal opinion.

30 In my opinion, I agree with the United Grain



1 Growers that possibly the solution of this whole problem
2 of undistributed income is in the treatment of the
3 profits in the same way as private profits are treated.
4 That possibly in total more tax revenue would be collected
5 than has been collected up to the present.

6 MR. STEWART: Dr. Staples, have you any comment
7 to make? Would you consider that the cooperative
8 movement would object to a provision that ordinary
9 dividends of non-cooperative corporations should be
10 deductible in the computation of income for tax?

11 MR. STAPLES: This is one consideration that
12 we have not addressed ourselves to, Mr. Stewart. The
13 group as I represent it on this occasion, speaking for
14 the cooperative movement across Canada, has no opinion
15 on this. We cannot help you.

16 MR. FOWLER: In regard to this McIvor report,
17 it was quoted very much on one side of the argument. I
18 was happy to meet Mr. McIvor and he told me about his
19 assigning of income tax in this way. The only fault in
20 the cooperative is something which was inherited from
21 the cooperative people of old. This three per cent
22 on capital employed came up from political considerations.
23 I did not agree with McIvor but I am going to suggest
24 that McIvor, right through his philosophy on major
25 problems had the philosophy that what is good in general
26 is good for the units. The interest of society is in
27 the investor owned enterprise. In that regard his report
28 is very meaningful. I can quote section after section of
29 what he is saying in his analysis and it all comes to
30 this, that McIvor is saying that the mice are unfair



1 to the cats.

2 This is the way we look at it. If it is the
3 intention of the Commission to say that cooperatives are
4 adopting an inequitable pattern, in this great enterprise,
5 the Commission and the government ought to do something
6 to relieve the unfair competition on the other side of the
7 fence. Who can deal with details of unfair competition?
8 I do not think it is the function of the government,
9 beyond a certain point, to try to protect the giants
10 or, in the other analogy, the cats from the mice.

11 In paragraph 201 we make this suggestion in the
12 Federation brief, which is a bit unrealistic, but it is
13 put in there for a point. This is what has happened.
14 The cooperatives are saying to the so-called investor
15 owned enterprise: "You can get relief by acting like
16 cooperatives." That is far from their original purpose.
17 They do not want to do that. The investor owned
18 enterprises are saying to us: "Act like a private
19 corporation." That is not our purpose either. However,
20 I mention there that they can do this if they want to.
21 It is a general assumption on the part of the corporation
22 people that the borrowing of patronage refund is
23 invariably done by by-law. I think that is so in most
24 cases.

25 I am president of two corporations and I am
26 trying to get rid of responsibility. We do not bind
27 members and have to have an individual agreement. If
28 this cooperative decided to expand and needed more
29 capital, it would have to get an individual premium.
30 It prices out ten minutes after the close of the



1 financial year.

2 The other is a large cooperative and we have
3 to get individual agreements from our members. This
4 is a point I would like to emphasize in the Federated
5 argument, that there is a great deal of misunderstanding
6 on the part of the general public. The general public
7 are led to believe this. When I say that I am in a
8 cooperative they say "You are those people who do not
9 pay any taxes". This is the kind of story which has
10 permeated through our society, that the cooperatives have
11 that general advantage. I suggest that the tremendous
12 advantage is not because it is conferred on them by the
13 Income Tax Act, but simply because we are cooperatives.
14 That is why we have the tremendous advantage and I think
15 we are entitled to it.

16 MR. STAPLES: This is not a profound idea,
17 of course. We would of course agree that the
18 cooperatives have advantages. I suppose that if the
19 cooperatives did not have advantages for somebody, they
20 would not exist.

21 Those advantages however, do not arise from the
22 provisions of the Income Tax Act. I am not here
23 referring only to the fact that the Income Tax Acts
24 substantially treat us all alike.

25 Mr. McIvor says that it does in fact give an
26 advantage to the cooperative. The advantage that
27 cooperatives have arises from the nature of the
28 enterprise and the cooperation and the parties and the
29 relationship of the member.

30 If I may use a very homely illustration, it is



1 horse or cow proposition. We might sit here all day
2 or all the week suggesting whether a cooperative or an
3 ordinary corporation is the better from the standpoint
4 of Canadian economy and the people in it and still we
5 would get nowhere. It is just like a person who owns
6 a cow who may argue with a person who owns a horse as
7 to which is the better. It depends on what one wants it
8 for. One advantage of the cooperative is that it is
9 more intimate and has a more effective relationship with
10 its members. Perhaps that should be put the other
11 way around. The members set it up and it is there to
12 serve them. This of course is an advantage naturally.

13 However cooperatives have substantial
14 disadvantages also. I suppose that if they did not
15 have disadvantages they would have grown more rapidly.
16 One of the disadvantages is the difficulty of attracting
17 capital. As an investment in a cooperative from the
18 standpoint of the ordinary investor, it is just not as
19 attractive.

20 I think I am betraying no secrets here.

21 Secondly, their costs are higher in some
22 inescapable respects, because they have to keep records
23 of the members and the whole business of operating a
24 democracy in the economic field has some disadvantages.
25 It is a very difficult thing to decide. One may try to
26 decide whether an advantage lies with a cow or a horse.
27 But there is one advantage in a cow that it can supply
28 you with food but on the other hand a horse can run
29 faster.

30 This is the difficulty we have. Any advantage



1 we have does not arise from the Income Tax Act.

2 We think some of the people in Canada who would
3 like to use the Income Tax Act, or revisions of it, to
4 offset some of the advantages that cooperatives have and
5 to overlook some of the disadvantages -- that is the kind
6 of general concept we have in our minds.

7 MR. STEWART: Mr. Staples, one advantage
8 which you have at the moment is of course expressly
9 provided for by the Income Tax Act.

10 MR. STAPLES: Yes. You mean the three year
11 exemption?

12 MR. STEWART: No, I mean the right to deduct
13 patronage dividends for tax purposes.

14 MR. STAPLES: No, this applies to all alike.
15 The advantage does not stem from the Income Tax Act,
16 it stems from the cooperatives, because only cooperatives
17 want to do this.

18 MR. STEWART: I take it you would not seriously
19 suggest that patronage dividends are really available to
20 your competitors?

21 MR. STAPLES: They are available, but on the
22 other hand the three per cent provision, if what you say
23 is correct and if this is the proper concept, the
24 three per cent provision and its limitation is aimed in
25 opposition against cooperatives solely. We do not
26 take that view, because we say it belongs to all alike,
27 but it affects in a different way because we are more
28 likely to pay patronage dividends.

29 MR. STEWART: But the three per cent provision
30 basically, is it not, is a limitation on the amount of the



1 deduction?

2 MR. STAPLES: That is right.

3 MR. STEWART: I have not raised this question
4 of the availability of patronage dividends to the
5 ordinary commercial corporation, because it is perfectly
6 apparent from the Act that they are entitled to use it,
7 but the whole method of their operation is unsuited to the
8 use of patronage dividends, whereas your particular
9 form of organization is extremely well suited to it.

10 MR. STAPLES: This was my point in the horse-
11 cow example. That is part of our difficulty.

12 MR. STEWART: Suppose that we consider just for
13 the moment the effect on the cooperative movement of a
14 withdrawal of this particular deduction. How serious
15 an effect do you consider that would have on the
16 movement as a whole?

17 It obviously is not going to impair this
18 relationship between the member and the cooperative. If
19 the member considers, as apparently most of them do,
20 that he wants to engage in this particular form of
21 enterprise or type of enterprise, I am quite sure that
22 it would be only human nature for him to want to
23 maximize his return from it. But if the deduction were
24 withdrawn and if the cooperatives paid tax on the
25 amount which would otherwise be available for patronage
26 refund, the amount they had available would be reduced
27 by the amount of the tax they would pay. Therefore
28 their patronage refund presumably would be reduced and
29 in some cases reduced quite substantially, but there
30 still would be a patronage refund.



1 The fact that the government took money
2 through taxation which would otherwise have remained
3 with the cooperative and gone from the cooperative to its
4 members, would have effects both on the government and
5 on the member. How serious do you consider those effects
6 would be on the movement as a whole?

7 THE CHAIRMAN: Mr. Stewart, do you not have
8 to add to that the dividend and suggest that therefore
9 most members would pay more?

10 MR. STEWART: I am just wondering how serious
11 this is. I know it is important to the movement and
12 we would not be here if it were not.

13 MR. STAPLES: Mr. Stewart, it is the opinion
14 of this group, and this group represents the cooperative
15 movement in Canada, that it would have an extremely
16 serious effect on the development of cooperatives.

17 We made a little study of the position of
18 cooperatives from the standpoint of income tax in a
19 number of countries. We cannot claim our study to be
20 fully complete, but it is reasonably so. In some
21 cases it is a little difficult to compare the position,
22 so what I say next might not apply exactly in every
23 particular case.

24 We found no country which taxes the income
25 of cooperatives as stringently as the income is taxed in
26 Canada. I have referred to the three per cent provision.
27 In some countries cooperatives, particularly
28 agricultural cooperatives, are free of income tax. They
29 are exempt. These are very large businesses in some
30 cases. That is not our position.



1 Perhaps I am confusing the point here, but the
2 right of people to serve themselves at cost by working
3 through an organization which they set up for that
4 purpose, is an important one. The initial transaction
5 is not the final one. The books are closed at the end
6 of the year and the thing is straightened out by a second
7 or final or patronage payment.

8 This is a very important thing to preserve,
9 and if Canada were to interfere more seriously with this
10 possibility, as you are suggesting might be done, we
11 feel that this would be extremely serious. If you
12 would like us to discuss how it would affect different
13 types of cooperatives, or how it would affect us in
14 different ways, I would call on some of my friends.
15 There are different types of cooperatives which would try
16 to cope with this in different ways. In some cases
17 it may tend to weaken their structure. In some cases
18 it may weaken them in connection with the members. One
19 may say that this would mean the end of all cooperatives
20 but we would still exist somehow although this would be
21 a very serious step to take.

22 THE CHAIRMAN: Mr. Stewart, if you are going
23 to deal with this, which might be very interesting, I
24 suggest it be done this afternoon. In that event we
25 could recess now and return at 2:15.

26 In doing so, I think you might, if you feel
27 it desirable, speak to Mr. Blair about the timing of
28 the session, as we do not want to go over a reasonable
29 hour.

30 MR. BLAIR: I think Mr. Gibbings would like to



1 make one comment which he says will be brief.

2 MR. GIBBINGS: I realize the lunch hour has
3 approached, but apropos this question I would like to
4 take a moment to argue that the cooperative should be
5 entitled to deduct the total of the patronage dividend
6 and not be restricted to the three per cent.

7 I would like to argue this from the point of
8 view of a producer of grain, which I am. When I produce
9 grain I deliver it to a country elevator from which I
10 receive, as an agent of the Wheat Board, an initial
11 payment. I record this in my profit and loss statement
12 as income from grain. This grain moves through the
13 channels of the Canadian Wheat Board, through
14 legislation, whereby they perform the marketing function
15 and return to me a final payment, after deducting all
16 the costs. When they do so, I record it in my profit
17 and loss statement as a further payment for grain.

18 When I deliver this grain to the Saskatchewan
19 Wheat Pool, by so doing the Saskatchewan Wheat Pool is
20 acting as my agent, set up under legislation, and it
21 effects a saving for me. I get that saving in the
22 form of a patronage dividend and enter it in my profit
23 and loss statement as a patronage dividend from the sale
24 of grain. This is the only way I can get it. I
25 can feed grain to livestock, or I can have \$10,000.00
26 invested in the Saskatchewan Wheat Pool, but the only
27 way I can get it is through the sale of grain. I
28 consider it to be income from grain and so it is income,
29 but they do not consider it as income from land or as
30 rent or as income from investment. In submission 200



1 they give a factual illustration of this in the case of
2 a number of producers.

3 In the case of the Canadian Wheat Board, no
4 one has ever suggested, as far as I know, that a
5 difference between the initial payment and the final
6 payment that accrues to me from the Canadian Wheat Board
7 should be taxed as in the hands of the Canadian Wheat
8 Board. There is not any suggestion that it should be
9 taxed now.

10 I am suggesting that the saving that accrues
11 to me, through the utilization of the Canadian Wheat
12 Board, cannot justifiably be taxed in the hands of the
13 Canadian Wheat Board. The Canadian Wheat Board could
14 have decided not to acquire facilities but to utilize
15 the facilities already existing, we acting as their
16 agent, but they decided to do so and to operate as
17 efficiently as we do, and therefore they were able to
18 get some three cents per bushel in additional price,
19 which would be resulting in a final payment, and in
20 that case taxation would not have been a factor, I
21 suggest.

22 There happens to be a step in between, in
23 which I, along with other farmers, own facilities which
24 are utilized by the Canadian Wheat Board in this
25 marketing process, which makes a net increase in my
26 gross return from grain. That should not be taxed in
27 the hands of that agency.

28 THE CHAIRMAN: Thank you very much.

29 MR. STEWART: May I ask one question, so that
30 I may be quite sure about this. Supposing that,



1 instead of turning the wheat over to the pool, you had
2 turned it over to the line elevator, I take it you
3 would not suggest that the net income of the line
4 elevator company should not be subject to tax?

5 MR. GIBBINGS: No, but it would not be taxable
6 in my hands, either. I did not receive it.

7 MR. STEWART: The second and third and final
8 payments that you receive for wheat that is shipped to
9 the line elevator company, which may come to you from the
10 Canadian Wheat Board, they are taxable in your hands
11 and not in the hands of the line elevator company.

12 Are not the two things we are concerned with here these
13 two things. First, the line elevator company makes
14 certain handling and service charges. If it obtains or
15 realizes a profit in respect of these charges, it is
16 taxable. Its shareholders have nothing to do with
17 that member relationship between it and the cooperative
18 although indirectly they are having to absorb the tax.

19 If you send your wheat to the Saskatchewan
20 Wheat Pool, then the gain which the Saskatchewan Wheat
21 Pool realizes from the handling and service charges it
22 makes, is not at the moment taxed in its hands subject
23 to the three percent. The gains are distributed to you
24 in the form of patronage dividends and they are taxed
25 in your hands.

26 MR. GIBBINGS: That is true. If the
27 Saskatchewan Wheat Pool decided instead to keep for its
28 own corporate use these three cents a bushel and I not
29 only did not receive it but did not receive credit for
30 it, it should be taxed in the hands of the Saskatchewan



1 Wheat Pool the same as it would in the case of the
2 Canadian Wheat Board.

3 THE CHAIRMAN: We may wish to come back
4 earlier after lunch and this would be a good place to
5 call a break. It will give us an opportunity to
6 consider the statements which lead right in to the basic
7 problem we are discussing, and we can come back to it
8 after lunch.

9 Gentlemen, if it suits you, would you try to
10 be here by 2:00 p.m.

11 --Luncheon adjournment.

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1 ---On resuming at 2:00 o'clock p.m.

2 THE CHAIRMAN: We are ready now to proceed.

3 Mr. Stewart are you ready?

4 MR. STEWART: Yes, Mr. Chairman.

5 THE CHAIRMAN: Are you ready, Mr. Staples?

6 MR. STAPLES: Yes, Mr. Chairman.

7 MR. STEWART: I think that when we rose for
8 lunch Dr. Staples was going to call on others to deal
9 briefly with the effect any repeal of this deductability
10 feature would have on the cooperative movement. Mr.
11 Gibbings was addressing himself to another point, but I
12 guess he is not here now and perhaps before he comes
13 back we could go on with these other comments.

14 MR. STAPLES: I would like to call on three
15 people, as we would like to have their comments on how
16 it would work out specifically in the case of certain
17 organizations. We have said already that this would
18 have a very serious effect on cooperatives. I think this
19 is worth considering, that it would have a very serious
20 effect on Canada also, because Canada would be taxing
21 to a greater extent than it is now on sums as income
22 which are not income at all. This would occur at a
23 time when cooperative development is being encouraged by
24 official action all around the world -- by FAO (The Food
25 and Agricultural Organization), ILO (The International
26 Labour Organization), The Alliance for Progress in Latin
27 America, financed by the U.S.A.

28 Canada would become known, I am afraid, as a
29 country that has an unfavourable attitude towards
30 cooperatives.



1 I give those views for what they are worth and
2 I now call on Mr. McEwen from Moncton, to talk about how
3 this might work out in a cooperative there.

4 MR. McEWEN: Mr. Stewart, this question has
5 to do with what would happen, or what we would do, if
6 patronage dividends were taxed before being allowed to
7 be deducted. Is that essentially it?

8 MR. STEWART: Yes. Let me just state my
9 understanding of what the position would be. The income
10 of the cooperative itself would remain the same,
11 presumably, but the income tax would be levied on that
12 income, so that the amount which would be available for
13 patronage refund would be the income less the tax.

14 MR. McEWEN: After taxation?

15 MR. STEWART: Yes, and the tax being levied at
16 the normal corporate rate.

17 MR. McEWEN: In the first place, I just cannot
18 picture the thing being done that way. I think it would
19 deny
19 / the right of mutual association, the right of working
20 together, group action for a common purpose. Therefore I
21 just cannot picture it, without it being a tax on
22 cooperatives because they were cooperatives.

23 As has been explained very well already, these
24 funds are not owned by the Association as such, they are
25 owned by the members. Now, those members may apportion
26 some of them to their cooperatives and as such it would
27 be taxable, when they are reserves and so on. Actually,
28 I cannot picture it the other way.

29 MR. STEWART: Let us assume that, notwithstanding
30 that, this did occur or was being seriously considered



1 by an administration what should whoever is thinking
2 about it take into account as regards results and how
3 would it affect your particular organization.

4 MR. McEWEN: Quite frankly, I do not know. I
5 think there would be very great resentment. Just what
6 action would be taken, I cannot judge, as I do not know
7 what the members reaction would be.

8 MR. STEWART: Would it affect the cooperative
9 financially as far as its operations are concerned?

10 MR. McEWEN: The cooperative as such?

11 MR. STEWART: Yes.

12 MR. McEWEN: I am not sure just how it would
13 affect the cooperative as such. It would affect the
14 membership, in their income which they would get through
15 the use of the cooperative. It is their instrument
16 for that purpose. The funds are not the cooperative's
17 funds until the members have disposed of them.

18 MR. STEWART: Thank you very much.

19 MR. STAPLES: I now ask Mr. Martin to speak.

20 MR. MARTIN: If I understand it correctly, I
21 am to look at the question raised, if the administration
22 has decided to tax the income or whatever it is before
23 the deduction of a patronage dividend.

24 Before going to this, I have to say that I
25 think it would like a greivous injustice to take one
26 body and set it not in front of the law but in front of
27 their rights. I am not a lawyer but I have worked for
28 some years with the cooperatives and what I know is this.
29 Nothing that we would have as income in a cooperative can
30 be an income or a gain to the corporation before the



1 members in general meeting have decided upon it. To
2 answer directly your question, definitely I think it
3 will hurt the cooperative movement, because gains from
4 the activities are about the only source, or the basic
5 source, for the money which is needed to build necessary
6 facilities for giving services which the farmers require.
7 In that case, I am speaking of a farmers cooperative.

8 In the ordinary corporation, anybody can invest
9 in it, if he has the money to buy shares and if they are
10 on the market; but in the case of the cooperative only
11 the members are entitled to buy the basic shares which
12 are found necessary to build a cooperative.

13 I think it will definitely hurt the cooperative
14 movement. This is part of the income of the farmer
15 and it is about the only way he can invest in something
16 which can help him. I think that cooperation in
17 agriculture has done more than any other form of help to
18 keep our agriculture at its present level. I think this
19 is the only way we can keep what we call the family farm
20 in our country, and I think it is necessary to do so.

21 Definitely, if the taxes applied before the
22 deduction of patronage dividend, it will hurt financially
23 and economically and I would say it would be the negation
24 of the right the people have to organize themselves.

25 MR. STAPLES: I now ask Mr. Parker to speak.

26 MR. PARKER: Mr. Chairman, I am speaking
27 particularly for members of the pool elevators. First.
28 I say it would be intolerable. However, that is not the
29 question here. I say it would be inequitable and
30 unjustified. It will be resented and the resentment



1 will be expressed in many ways and by some in more
2 effective ways than by others.

3 I say it would be very unfortunate, in the
4 interest of the cooperative cause. You lessen its
5 availability of working capital by taking off immediately
6 52 per cent of the surplus profit or whatever you like
7 to call the net results which, in our opinion is not
8 ours but belongs to the individual. That money is
9 retained temporarily for one, two or three years, whatever
10 the duration may be, and provides a liquid position which
11 enables us, in the market with the banks, to finance
12 this properly and to provide for capital expansion. It
13 gives us access to security which we need. If it were
14 taxed away, to that extent, it will lessen our ability to
15 borrow in the market in the amounts required, at a more
16 favourable rate.

17 For these reasons I think it would be most
18 unfortunate. It would lessen the farmers opportunity
19 to do things for himself.

20 Agriculture has changed very significantly in
21 the last fifteen or twenty years. No farmer can make
22 a success of it if he confines himself to his own farm.
23 I say that advisedly, that 90 per cent of them would
24 require to have investments elsewhere or do what we call
25 off-farm business, if they are to have a black balance
26 sheet.

27 The farmer must -- and I use the word
28 advisedly, Mr. Chairman, -- he must get into off-farm
29 business if he is to have the results of his labour and
30 his capital pull him along in the market, where



1 organized capital and big corporations have to compete.
2 He must get into off-farm business to improve his net
3 income position.

4 I think it would be an unfortunate imposition if
5 any Government taxed, beyond what is being done now,
6 the patronage dividends, as we are calling them, or
7 whatever you wish to call them, whether a straight
8 cooperative or an agency, it makes no difference to me.
9 I said yesterday, sir, that in the farmer's mind he
10 does not distinguish between an agency and a cooperative,
11 between an unincorporated corporation and a corporation.
12 To him this is his little off-farm enterprise in which
13 he attempts, without government assistance, to improve
14 his income. Therefore I think it would be very
15 unfortunate and I say, advisedly, that it will definitely
16 lessen the opportunities for cooperatives to continue
17 as they are doing and to expand and generally to attempt
18 to improve agriculture and the farmers position.

19 MR. STEWART: Thank you very much. Now, Dr.
20 Staples, I referred earlier today to the question of
21 pricing out. That is dealt with in the joint brief at
22 pages 40 and 41. I refer particularly to paragraph 86
23 and 87, which are on page 41. Paragraph 86 says this:

24 "If an attempt were made to
25 tax the patronage refunds in the hands
26 of the cooperative, then it is to be
27 expected that various devices would
28 be employed by cooperatives to make
29 price adjustments within the fiscal
30 period. This would lead to considerable
complications for cooperatives and



1 possibly for the tax administration.

2 It is much to be doubted whether the
3 public interest is served by creating
4 tax laws which would force taxpayers
5 to take unusual but justifiable
6 steps to reduce their income for
7 tax purposes."

8 Then in paragraph 87 there is a defence of the
9 practice of the cooperatives as regards selling at the
10 market price. This is a practice which we have
11 discussed already. The burden of that particular
12 paragraph is that the present pricing methods are
13 desirable in the interest of the cooperatives and their
14 members and that the practice should be permitted to
15 continue.

16 I notice that Mr. McIvor deals with this
17 question of pricing out, on pages 37 and 38 of his
18 article. In the third paragraph on page 37, he
19 indicates that if the cooperatives were taxed on the
20 basis that this deduction were not allowed -- and I
21 quote:

22 "The obvious and entirely
23 legitimate response would be for
24 their management to adopt pricing
25 policies which would minimize
26 net earnings. This is the 'pricing
27 out technique', to which reference
28 was made earlier."

29 He goes on to say that it would be quite
30 simple for cooperatives to reduce their earnings by



1 altering their purchasing prices in the case of marketing
2 cooperatives, or their selling prices in the case of
3 consumer cooperatives.

4 Then, on page 38, in the last couple of
5 sentences on that page, he treats this question as one
6 of fundamental importance to the economy. Perhaps I
7 should read those last sentences. They are:

8 "What should give the 'private'
9 section of the economy serious pause
10 is that, having achieved the
11 elimination of this tax
12 discrimination, they might well then
13 face the prospect of the rapidly expanding
14 cooperative movement having decided,
15 quite legitimately, to commit itself,
16 through 'pricing-out' methods, to a
17 legally effective 'no-profit' basis of
18 operation. In the light of its
19 fundamental philosophy, could 'private'
20 enterprise indefinitely survive?"

21 Dr. Staples, would you care to add anything
22 to what has been said in these briefs, on this question,
23 or to comment on the practical aspect of pricing-out?

24 MR. STAPLES: Mr. Chairman, I think there are
25 others who could comment on the practical aspect much
26 better than I could and I am sure someone would be
27 prepared to do so.

28 I think Mr. McIvor overlooked one or two basic
29 points certainly in those paragraphs. Cooperatives at
30 the present day are quite different from those of



1 previous days, though the effects are the same. That
2 is to say, the purpose of the cooperative is to serve
3 its members at cost. If you take the whole transaction
4 into account it does that through its first price to the
5 member and then the patronage refund that follows. If
6 you take these all into account, there is no further
7 price reduction possible, they have priced out to the
8 extent of 100 per cent, so to speak.

9 As to the practicability of this suggestion,
10 we can only say that the experience of cooperatives,
11 with respect to the methods of operation, goes back for
12 one hundred years. It goes back for 119 years to be
13 exact, to 1844 in Rochdale, where the first cooperative
14 was set up. The modern practice has followed the
15 principles of 1844, the principles which were operated
16 by the Rochdale pioneers in their store. Of course,
17 people had worked together from the beginning of time
18 but the new thing which was hit upon then was this
19 principle of selling at going prices and then refunding
20 the excess if there proved to be any.

21 I would suggest that if some practical
22 modification of this were in existence which could be
23 applied on a large scale, it would have been applied
24 long ago. Cooperatives are very widespread in many
25 countries and in many lines of business, and they have
26 tried everything. They have found that nothing in
27 practical terms works as well as simply to operate their
28 pricing standards in an orthodox way -- I am generalizing
29 now -- and if it is not the proper cost of the article,
30 to adjust at the end when they know what the proper



1 cost is.

2 MR. STEWART: I take it there is one advantage
3 to the movement in the earlier years. As the movement
4 matured, there has been the adoption of this technique
5 and through the deferral of portions of the patronage
6 dividend you have been able to provide yourselves with
7 capital. If the present day technique were adopted,
8 then, that capital would not be available in that
9 particular way. In other words, if you wanted additional
10 capital from the members, you would have to get it from
11 the members direct; but as the movement developed to
12 the point where its need for capital for expansion
13 purposes is not as great as it was, it has had such a
14 relationship with its members that the additional amount
could be raised by subscription only.

15 MR. STAPLES: I think that additional amounts
16 could be raised by subscription, but this is a time
17 consuming and expensive and inefficient method,
18 compared with the opportunity the cooperative has, that
19 the members of the cooperative have, to decide to leave
20 their savings with the cooperative for its use and
21 expansion for a limited period of time. This is what
22 appeals to the members. Each one contributing a relatively
23 small amount, creates a sizeable fund for the use of the
24 cooperative, for their use as a cooperative, for whatever
25 period of time they make it available.

26 -

28 -

30 -



1 I think that it is used in a very widespread way as you
2 suggest, but it is not the only way principle can be
3 put into a cooperative. It is the only organized way
4 that they can do it.

5 MR. STEWART: The need for this type of capital
6 still persists?

7 MR. STAPLES: Oh, yes, certainly it does.
8 The need for capital in a cooperative is growing rather
9 than diminishing. Opportunities for service to members
10 can reach further and further back in respect of
11 manufacturing needs. This need is perhaps where the
12 savings in the future lie in practical terms. The return
13 margin of money has been reduced somewhat historically.
14 On the other hand the opportunities in the collective
15 needs for farmers and others is tremendous, so relatively
16 large sums of capital are required.

17 THE CHAIRMAN: Before you leave this subject of
18 raising capital there is a matter I would like to inquire
19 into.

20 A question has been raised from time to time
21 as to whether there is or is not an advantage to the
22 cooperatives not permitted to others but by virtue of the
23 fact that they have been able to use patronage dividends
24 for further capital or loan purposes which, to some
25 extent, gives an advantage, perhaps. This money is not
26 taxed as heavily as the competitors money. In fact the
27 equity would be better served if patronage dividends were
28 all distributed in cash, and then if the cooperative
29 needed the money it would go to its own members, raise
30 the money by subscription or loan, or in some other way



1 rather than converting the patronage dividends. My
2 question in this regard is, should that be done? Would
3 that greatly impede the growth of cooperatives?

4 MR. STAPLES: It would certainly resented by
5 the members of the cooperative.

6 THE CHAIRMAN: Oh, yes.

7 MR. STAPLES: They consider this their own
8 money; it is an internal thing. Do they want to put the
9 money back in, so to speak, into collectives where they
10 do not think anybody should interfere? It has been paid
11 to them already in a form that is satisfactory to them.

12 THE CHAIRMAN: I would not have thought there
13 was a truer way of putting money back than to have
14 everybody pay in, individuals differently, of course.
15 You could say you do it on a group basis on a democratic
16 way because you have the need, but that is not as
17 democractic, is it, as each individual in a group making
18 the individual choice?

19 MR. STAPLES: You and I may differ on that,
20 because full freedom of the individuals of the group
21 lies with the individual in joining the group to do the
22 same thing. If he doesn't like what it is he can leave,
23 but while he is there he is there for the same collective
24 cooperative effort. One of the things to do is to
25 provide the necessary money and he has to put up his
26 share. All the members feel that way. The percentage
27 of people that object to this process is very very small;
28 practically non-existent. That is not to say there is
29 not some discussion in this respect. Maybe there are
30 factions in favour of different aims, but that is part



1 of the democratic process. The principle of organized
2 collective reinvestment is accepted across the cooperative
3 moment wholeheartedly.

4 THE CHAIRMAN: In order to secure deductibility
5 of patronage dividends they should be paid in cash,
6 and you think this would considerably impede the
7 development of cooperatives?

8 MR. STAPLES: It would be a serious complication.

9 MR. McDONELL: Surely in the ordinary
10 corporation the individual does not have much say as a
11 member of a cooperative has as to whether his dividends
12 or earnings are going to be distributed to him?

13 THE CHAIRMAN: I do not quite follow you.

14 MR. McDONELL: As to whether or not he is going
15 to receive a dividend or whether it will be reinvested in
16 the business is not a choice of the individual in the
17 case of a private corporation. It is true there is
18 corporation tax here. In respect of the cooperative
19 operation, the taxpayer of course gives the cooperative
20 the ability to use the money of the personal taxpayer.
21 In respect of a corporation to a great extent there is
22 no personal tax paid.

23 MR. STEWART: A supplementary point to that
24 which the Chairman has raised; is it a fact that under
25 the laws under which these cooperatives are set up it
26 is clearly possible for this deferral technique to be
27 adopted?

28 MR. BLAIR: Yes.

29 MR. STEWART: In other words whether it is a
30 matter of statute or by-law of the particular cooperative



1 there is an express provision for payment of patronage
2 dividends otherwise than in cash?

3 MR. STAPLES: Oh, yes. The statutes would
4 give to the cooperatives the authority to pass by-laws
5 in this respect.

6 COMMISSIONER GRANT: There is a matter which
7 we discussed yesterday which I think I misunderstood and
8 which I would like to have cleared up.

9 You may recall that we were discussing the
10 question of permanent capital and where it came from.
11 I think the answer which was given was that the permanent
12 capital comes from reserves; that is the reserves that
13 are set up after taxes are paid on them. Now, if that
14 answer is true, and I believe it to be so, I wonder if
15 I could refer to the balance sheet which is shown in
16 the Federated brief in appendix B schedule 6-A. I would
17 like to trace the permanent capital on that balance
18 sheet under what might be described as the loan capital,
19 or the revolving capital if it is in the hands of the
20 coop as a result of equity shares.

21 MR. BLAIR: Mr. Chairman, I wonder if Mr. Grant
22 is not referring to the other brief?

23 THE CHAIRMAN: I think he is.

24 COMMISSIONER GRANT: I am very sorry, it is the
25 joint brief.

26 MR. BLAIR: What is the page number, Mr. Grant?

27 COMMISSIONER GRANT: It is appendix B, schedule
28 6-A. It is the Federated balance sheet. In the capital
29 account you have fixed assets for 1961 showing a total
30 of 15,191,000. I wonder if it could be -- if Mr. Fowler



1 might be in a position to say how much would be allocated
2 or derived from tax reserves, or how much would be made
3 up of either loans or equity payments which have been
4 allowed to remain the coop although they are the property
5 of the individual?

6 MR. FOWLER: Mr. Grant, Federated is one coop
7 that does not make extensive use of reserves. Our
8 reserve account remains more or less stationary. There
9 is a difference in coops. Some people have larger
10 reserves.

11 In respect of your question with regard to the
12 fixed assets of 15,191,000; where that money came from
13 is hard to say. We have two sources of capital. We
14 have a fairly heavy bond issue, around 15 million. We
15 have our equity account which is share capital, all of
16 which in a sense is loans that have been made through
17 the central organization by its members on a revolving
18 basis. These are our two main sources of capital. The
19 sources are our accounts payable.

20 That is the three places we got the money to
21 acquire \$40 million in assets. It is not possible to
22 say that in respect of the fixed assets of 15 million,
23 just what money was earmarked for it.

24 COMMISSIONER GRANT: I see. Well, you have
25 fixed assets and your total assets are 41,608,000. Then
26 you have in your liability side long term liabilities in
27 the amount of 15 million. That would be your debt to the
28 public?

29 MR. FOWLER: The bond issue, yes.

30 COMMISSIONER GRANT: Your share capital member-



1 ship fees are \$15,416,000.00; that is largely the
2 rotating capital?

3 MR. FOWLER: That is largely the rotating
4 capital, yes.

5 COMMISSIONER GRANT: Then your reserves are
6 shown as 400,200. Would that be tax paid reserves;
7 the money allocated from reserves?

8 MR. FOWLER: That is correct.

9 COMMISSIONER GRANT: On which tax has been
10 paid?

11 MR. FOWLER: Yes.

12 COMMISSIONER GRANT: Thank you very much, Mr.
13 Fowler that clarifies it, I think.

14 MR. LAIDLAW: There is one fact I think we
15 should not lose sight of. That is the fact that the
16 device of acquiring capital in a cooperative through
17 the allocation of patronage dividends is in many cases
18 the only way by which people of modest means can acquire
19 ownership in a corporate business. When the cooperatives
20 began to take their present form over one hundred years
21 ago the people who started them had no capital at all.
22 The system of allocating capital out of patronage
23 dividends was the only practical way by which they
24 could accumulate investment, so to speak, in business.
25 At the present time if organizations like say the
26 Saskatchewan Wheat Pool were to be organized and this
27 method of accumulating capital were to be denied or
28 frustrated in any way it might have the effect of putting
29 the ownership of the cooperatives in the hands of the
30 relatively better off people. It would be relatively



1 easy to accumulate the capital through well-to-do
2 people, but by this technique you have a painless way,
3 so to speak, by which people of modest means can buy into
4 ownership of cooperative businesses.

5 MR. STEWART: Yes. Thank you.

6 MR. LAIDLAW: In this way people of modest
7 means have an avenue by which they can become owners of
8 business.

9 MR. STEWART: Yes. Well, now Mr. Staples,
10 perhaps we can come back later on, if time permits, to
11 this question of deductibility of patronage dividends.

12 I would like now to move to some other
13 questions if we can have a few minutes.

14 The first one is the question of the 3 per
15 cent limitation on the deduction which, of course, would
16 disappear if the patronage dividends ceased to be
17 deductible. I notice in your joint brief at page 34,
18 or rather at page 42 you quote what Professor McIvor has
19 to say on this particular point. It is obviously his
20 opinion that a restriction of this sort is difficult to
21 define in principle. He suggests that the limitation was
22 imposed for political reasons, or he used the words which
23 you will observe at the foot of page 42:

24 "A typically political compromise."

25 Whether or not this was a political compromise,
26 it was considered by some people at the time that if this
27 particular deductibility feature was going to be
28 adopted it represented a considerable concession for
29 tax purposes to the cooperatives, and there might be
30 something said for insisting that some tax be paid on



1 the income from the capital employed.

2 I observe that in the joint brief you urge that
3 it be repealed and that in the Cooperative Wheat
4 Producers brief at page 102, paragraph 169 it is also
5 suggested that the limitation is unjustified, and it is
6 urged that it should be repealed.

7 Now, is there anything that you would like to
8 add at this particular time in respect of this question?

9 MR. STAPLES: This is one place we agree with
10 Mr. McIvor.

11 MR. FOWLER: He agreed with us. He got that
12 from our statement.

13 MR. STAPLES: Many others agree with us on
14 this. The one I most enjoyed was the Assistant Deputy
15 Minister of Finance at the time this Act was passed when
16 he appeared before the Royal Commission on Banking and
17 Finance, and he said what McIvor said, that this was a
18 political compromise. I am not sure he used that exact
19 phrase. We assume that he is an authoratative source
20 in respect of the reasons for it.

21 Now, Mr. Stewart, you referred to this as a
22 tax on capital. We do not consider it a tax on capital.
23 If it was a tax on capital presumably it would be a tax
24 to be paid whether the cooperative was in a surplus
25 position or not, but that is not so. It is only paid if
26 the coop has some surplus.

27 MR. STEWART: If I gave that impression I am
28 sorry, I did not intend to.

29 MR. STAPLES: I would like to ask Mr. Gibbings
30 to comment on this with respect to some of the



1 cooperatives.

2 MR. GIBBINGS: I think, Mr. Chairman, prior to
3 lunch I indicated the reasons behind our conviction that
4 this 3 per cent was totally unjustified.

5 If, for instance, in our particular situation
6 we were not acting as agents to the Wheat Board, but the
7 Wheat Board was acting more directly than it is now
8 through the utilization and acquisition of facilities
9 this question would not even arise. We feel that there
10 is no justification for any limitation on the fashion of
11 the earnings that belong to us as individuals which can
12 be returned to us. We do not think this is justified
13 any more than there should be a limitation on the
14 amount of the final payment that the Canadian Wheat Board
15 can pay to me as a result of their activities. Our
16 organization is simply one step in that chain, and at one
17 point in the chain somebody says you should be taxable
18 to the extent at least of 3 per cent on capital employed.
19 I believe it is clearly in my hands as a producer as a
20 result of an activity which has been extended beyond my
21 farm gate under the legislation in both instances.

22 MR. STEWART: Well, your basic point here is
23 that to impose any limitation of this sort on the
24 deduction is illogical?

25 MR. LAIDLAW: Right.

26 MR. STEWART: If patronage refunds are deductible,
27 they should be deductible entirely.

28 Could we pass then to the question of the
29 three year exemption for new cooperatives?

30 Mr. McIvor says in his report at page 34 that



1 in his opinion this exemption for the first three years
2 should either be eliminated or that it should be
3 extended to all taxpayers.

4 In the joint brief at page 33 you indicate that
5 you consider that it should be continued. I refer in
6 particular to paragraph 68, Item 3, and then I notice
7 that on page 30 of the joint brief, and more particularly
8 in paragraph 61, you suggest that the exemption has been
9 to the benefit to certain types of cooperatives, and you
10 go on to say that you consider where possible this
11 principle might usefully be extended to other types of
12 businesses and deemed to be an encouragement. The matter
13 is also dealt with in the brief of the cooperative
14 wheat producers at page 108 in paragraph 179 where they
15 give a number of reasons for the continuance of the
16 exemption.

17 Now, it seems clear that you would like the
18 exemption to be continued notwithstanding that, as has
19 been brought out, it seems to be easier today for
20 new cooperatives to finance themselves, or to be financed
21 than it has been in the past. Do I take it that if it
22 is continued you would support, or would have no
23 objection at least to the exemption being extended to
24 industry generally?

25 MR. STAPLES: We have no opinion on that, Mr.
26 Stewart. There would have to be some safeguards on this
27 just as there are with cooperatives. The cooperative
28 that is entitled to this sort of exemption is very
29 carefully defined in the Act. Where it should be we
30 do not object to it at all. We were not thinking of this



1 as a blanket overall recommendation. We were suggesting
2 that from time to time it is possible the Government of
3 Canada might want to encourage some particular line of
4 business.

5 Maybe there are relative degrees of need for
6 encouragement. This has not been an easy question for us
7 to decide policy. There are many people in the
8 cooperative movement in Canada, some of them here this
9 morning, who feel that this is not a matter of great
10 importance to us. Of course, passages of our briefs
11 reflect this.

12 First of all, in spite of what you say about
13 the relative ease of organizing a new cooperative and
14 financing it, there are relatively even new cooperatives
15 starting in Canada, and I am speaking of the mercantile
16 field. The number in figures of cooperatives is going
17 down in volume but the number of members is going up.
18 In some cases this is really a help. The most dramatic
19 expansion in this regard in Canada is in the Eskimo
20 cooperatives. They are being started through good
21 leadership. We help some of these organizations. They
22 are carefully incorporated and well set up. They are
23 exempt from income tax for three years which is very
24 helpful. They are able to improve their financial
25 position considerably in the first three years. We
26 think it is good policy for the Government of Canada to
27 offer this much advantage to a new cooperative. A
28 new cooperative is not an easy organization to get going.
29 It is a service proposition. No one is going to make
30 any money out of it from the standpoint of investment.



1 There are small groups particularly interested. The
2 community as a whole takes the idea up but the interest
3 of each member is only limited. Cooperatives are
4 sometimes difficult to plan and to get them to take root.
5 We think that this small encouragement to new organizations
6 to this particularly limited extent is designed as an
7 encouragement and should be continued. We stand behind
8 that principle.

9 THE CHAIRMAN: Mr. Stewart, may I divert you for
10 a moment. These exemptions are only useful to these
11 cooperatives that make a profit. In view of that I am
12 wondering if this has been useful to these cooperatives?
13 Would they have made a profit and otherwise paid taxes?

14 MR. STAPLES: Some of these new cooperatives
15 because of the nature of their business and the kind of
16 product which they handle are highly specialized and not
17 in large volume and have been highly profitable, yes.

18 THE CHAIRMAN: And highly gainful?

19 MR. STAPLES: Yes, but some have not.

20 MR. STEWART: Mr. Staples, there are two
21 respects in which you say the tax position of the
22 cooperatives should be improved. The first is dealt with
23 at the bottom of page 43 of the joint brief. There you
24 say that you consider that these statutory reserves which
25 you are required by provincial legislation to set up
26 should be deductible for tax purposes, and you say at the
27 top of page 44 in the last couple of sentences in
28 paragraph 90, that because of the special nature of
29 cooperatives federal policy insists on these reserves
30 to ensure stability, and to exempt the statutory



1 reserves or to define reasonable limits would be equivalent
2 to the exemption now granted to special types of reserve
3 accumulations by other organizations. Now, I suppose
4 one way to deal with this problem would be in a taxation
5 statute. I suppose another way would be to deal with it
6 in provincial legislation in an attempt to have the
7 provincial legislation permit you to treat the amounts
8 that are in these revolving funds as equivalent to your
9 reserves. Have you considered that alternative as well?

10 MR. STAPLES: Well, not very clearly. There is
11 a problem involved in the conditions we have here, of
12 course, because it really involves two governments, and
13 we see problems. One of them requires reserves the
14 other requires generally that reserves be taxed. This
15 is not easy to resolve. Your suggestion may be practical.
16 Still, this is a Royal Commission dealing with taxation
17 as a whole in Canada and it seems that there is no
18 reason why we should keep silent on the subject. There
19 is an element of inequity in this, regardless of what
20 may be desired in Ontario.

21 In many provinces they must set aside certain
22 reserves and the federal authority comes back and takes
23 it as income even though it would not be income if the
24 cooperative had a free hand.

25 THE CHAIRMAN: You are getting into a matter
26 which interests me as an accountant a good deal. There
27 are reserves which one has reserved which are deductible
28 before arriving at profits. There are also large groups
29 of reserves which have nothing to do with that at all
30 and which comes after profits. After all the equity



1 profits one has reserves. The taxes are reserved before
2 you get paid. I was curious and underlined your
3 statement as to reserves accumulated by other
4 organizations. I had no idea what you were referring to.
5 I do not know why the reserves of other organizations,
6 save such things as bad debt reserves and depreciation
7 reserves should be expected to escape tax.

8 MR. STEWART: Perhaps Mr. Blair may answer this.

9 MR. BLAIR: We were thinking of organizations
10 which are regarded as having peculiar features which
11 require them to have reserves of fixed types. The most
12 obvious example is banks. Other examples are insurance
13 companies and cooperatives. They have been regarded over
14 the years by the provinces which have incorporated them
15 as having certain features in their operations which
16 require a statutory direction as a different way to
17 achieve stability. This was the analogy we chose.

18 THE CHAIRMAN: Thank you. I understand it.

19 MR. STEWART: Your other suggestion for an
20 additional tax benefit, if I may call it that, was
21 relative to the reduction in the interest, so-called,
22 which it paid on shares in cooperatives. That is dealt
23 with in your brief at page 44 in paragraph 91 which is
24 headed "Interest Paid on Capital". I think we referred
25 to this particular paragraph or part of it yesterday.
26 In the last two sentences you suggest that in substance
27 if not form the whole transaction between the cooperative
28 and the member is that of debtor and creditor. Logically
29 this relationship should be recognized by the Income Tax
30 Act. Now, I think we developed yesterday the thought



1 that to an increasing extent the investment which the
2 members have in cooperatives should be regarded as in
3 the nature of equity as opposed to loan capital. This
4 appears to have been one of the ways in which the
5 movement had to clean up certain balance sheets. I think
6 the expression "clean up" was used.

7 Now, if these amounts to the credit of members
8 accounts are to be properly regarded as equity, then
9 what you are asking here in effect is that the return,
10 if one is paid on equity investment, should be deductible
11 for tax purposes. I realized that you do not regard
12 the relationship between the member and the cooperative
13 as similar to that of the relationship of the ordinary
14 shareholder to a corporation, but it seems to me that
15 if this suggestion were to be considered at all it might
16 have to be on the basis that the dividends paid by
17 ordinary corporations to shareholders would also be
18 deductible. That is a proposition on which, as I
19 recall, you said you had no views to put forward?

20 MR. STAPLES: That is correct. The basis of
21 our claim here in part is in respect of the nature of
22 shares in the cooperative.

23 I think perhaps it would be well if Mr. Blair
24 were to comment on that briefly. This is a different
25 sort of investment.

26 MR. BLAIR: Mr. Chairman, I think it would be
27 unnecessary after two days of discussion to say very much
28 more about this. I think you yourself yesterday made
29 the remark that there was a good deal of debtor-creditor
30 relationship in the equity or share structure of a



1 cooperative, and what we are really asking for here is
2 that the special nature of the cooperative capital
3 structure be recognized, and if moneys are paid by the
4 cooperatives to the members in their capacity as owners
5 of the equity rather than as dividends that those moneys
6 be regarded as deductible expenses, as if they were interest.

7 MR. STEWART: Thank you very much.

8 Also at page 44 of the joint brief there is a
9 section H which refers to the tax position of cooperatives
10 in other countries. This is a matter which is of
11 considerable interest, I am sure, to the Commission, and
12 I rather sense from paragraph 92 that you have made a
13 study of the treatment; the tax treatments of cooperatives
14 in other countries. If that is so I wonder if you would
15 have a memorandum, or perhaps you might be able to
16 develop a memorandum on this subject which might be of
17 assistance to the Commission.

18 MR. STAPLES: Mr. Stewart, we certainly have
19 some information on this subject which we will pass on
20 to the Commission.

21 THE CHAIRMAN: Thank you very much.

22 MR. STEWART: Thank you very much.

23 THE CHAIRMAN: That would be really helpful.

24 MR. STEWART: If I can come back to page 38
25 of the joint brief for a moment. In paragraph 80 at the
26 foot of that page you refer to a particular suggestion
27 with regard to the taxation of cooperatives which is
28 that some form of turn-over tax be applied to the
29 gross receipts of a cooperative. Now, I do not recall
30 whether this particular matter has been discussed before



1 this Commission on earlier occasions or not. Has that
2 suggestion been put forward for use generally or for
3 use in the event that cooperatives adopt paying out
4 techniques?

5 MR. STAPLES: As I recall, the origin of this
6 paragraph was a result of a questionnaire that came to
7 us from the Commission on Taxation. I believe other
8 organizations were asked also for opinions on the same
9 subject. This represents our view. I think perhaps we
10 should add that it was not given widespread study. Mr.
11 Blair may say a word. We sent out a questionnaire
12 based on this to a number of other people in the
13 organization. I take it this is based on their answers.
14 I do not know how much emphasis we should give to it,
15 really.

16 MR. STEWART: Mr. Blair, do you have anything
17 to add?

18 MR. BLAIR: No. We really say about all we can
19 say. First of all, we oppose it very vehemently if it
20 is a special tax for cooperatives, because it would seem
21 to have further special features attached to it. In
22 substitution for it, or in addition to existing taxes
23 we have no opinion except that it is like another
24 species of sales tax, and there is evidence that that
25 is not as practical as it used to be.

26 MR. STEWART: Now, if you turn to the comments
27 on page 33 of the brief at the top of page 34 there are
28 two other points. The first relates to the reporting of
29 patronage payments and the second relates to the
30 making of tax deductions at the source on patronage



1 refunds.

2 The second of those points you deal with there
3 at page 39 of the brief in paragraph 81. You say there
4 that if it were suggested that the tax deduction be
5 payable regardless of the final income position of the
6 recipient that it would be unfair. I do not think any
7 suggestion that there might be a deduction at the source
8 would necessarily, at any rate, be made on the basis
9 that a taxpayer should not be entitled to a refund if his
10 income were such that the tax at the rate we have held
11 would not be payable. Nor would I expect that a deduction
12 at the source on patronage dividends would relate to
13 patronage dividends alone. This, I suppose, might have
14 been accompanied by a general provision for deduction
15 at the source on dividend payments.

16 In the Cooperative Wheat Producers brief at
17 page 110 in paragraph 184 there is definite opposition
18 to the suggestion that there might be deduction at the
19 source.

20 Have you anything that you would like to add
21 in respect of this particular question?

22 MR. STAPLES: Mr. Stewart, these are two more
23 sections that were in the questionnaire from the
24 Commission. We tried to gather information on it and be
25 as helpful as possible, the result of which is here.
26 If you wish, Mr. Simon who worked this out to speak, he
27 may have some helpful comment.

28 MR. SIMON: I really think, sir, that we have
29 exposed our complete approach to this. We felt that
30 the administration of this might present difficulties



1 both from our own cooperative viewpoint and also from
2 the viewpoint of the tax collectors.

3 MR. STAPLES: Perhaps Mr. Gibbings might want
4 to comment.

5 MR. STEWART: May I ask Mr. Simon why it would
6 cause difficulty to the tax collector?

7 MR. SIMON: We thought of the constant inter-
8 change in the income and in the form of income tax
9 collectors because quite often there would be a large
10 number of requests for a return of the deduction. This
11 creates work for the administration.

12 MR. McDONELL: If you realized that a patronage
13 dividend was taxable in the hands of a farm member
14 immediately it is declared, it would be deductible at
15 source immediately it is declared. You have accomplished
16 nothing except a lot of red tape. The tax office would
17 get all this money from the cooperative deducted from
18 patronage dividends and turn around immediately and pay
19 it back to the farmer. The taxpayer I suppose would pay
20 X dollars and would say X dollars less this deduction,
21 so the time factor here does not accomplish any purpose.

22 MR. STEWART: Is it not a fact, Mr. McDonell,
23 and I do not suggest for a moment this is confined to
24 patronage dividends, but dividends generally and possibly
25 including patronage dividends, that there appears to be
26 a certain amount allocated to revenue? In other words
27 there is income which is not reported?

28 MR. McDONELL: It is located in this field,
29 though, and therefore there is a T-5 slip in each one
30 of these cases.



1 MR. STEWART: A T-5 refers to the payment of
2 \$100.00 and more?

3 MR. McDONELL: Not in all cases. In our own
4 it is for 100 per cent which is taken right off.

5 THE CHAIRMAN: Mr. McDonell has got a point.

6 MR. FOWLER: I suppose I could make the
7 suggestion that instead of \$100.00 perhaps \$50.00 might
8 be considered as causing less difficulty and achieving
9 less loss in this regard.

10 MR. McDONELL: I might say that this involves
11 a matter of feeding the T-5 slip through an I.B.M.
12 machine. There is no problem there. There is just the
13 difficulty in respect of the return of the refund.

14 MR. STEWART: So if anything of this sort is
15 to be considered you would prefer to extend the T-5?

16 MR. McDONELL: Yes.

17 MR. STEWART: Rather than deduct at source?

18 MR. McDONELL: Yes.

19 MR. SIMON: I was wondering, Mr. Stewart,
20 referring to deductions if this would put the cooperatives
21 in a position that ordinary corporations are not in, in
22 that ordinary corporations I believe do not have to
23 deduct at source in respect of dividends.

24 MR. STEWART: Well, I think if it were done for
25 one it perhaps should be done for all.

26 If we can now back for a moment to this
27 question of deductibility of patronage dividends, there
28 is one question which I do not think has been raised
29 earlier and that is, is it not a proper means of
30 classifying cooperatives for this purpose -- would it be



1 logical to say that the smaller cooperatives, for example,
2 might continue to have the benefit of this particular
3 deduction, but that it might be denied to the larger
4 ones? Obviously there would be a great problem here in
5 defining what is large and what is small, but is there
6 any possible method of classifying cooperatives? Is
7 there a logical differential for this purpose as between
8 retail cooperatives on the one hand, and I refer to
9 consumer cooperatives, and the wholesale or national
10 cooperatives on the other? In other words, expanding
11 on that second point, which has been made in the last
12 couple of days regarding the close personal connection
13 between the individual farmer or member and his
14 cooperative, when we come to deal with wholesales such
15 as federated cooperatives we find that the individual
16 farmer or member is not a member in that particular
17 organization at all because membership there is
18 restricted to the retail cooperatives. No doubt there
19 are other cooperatives which might be effected by any
20 such differential. The Manitoba Pool Elevators, for
21 example, is composed of member cooperatives. There again
22 there is certainly less direct connection between the
23 individual farmer and that type of cooperative. I am
24 not suggesting that these are the only sort of
25 classifications, but there are two, one on the basis of
26 size and one on the basis of who the members are.

27 Is there anything to be said for a class-
28 ification along those lines or along any other lines?

29 MR. STAPLES: Mr. Stewart, I can only say that
30 any such attempt at discrimination among cooperatives



1 would be quite unpalatable to us. We would not want
2 to see any attempt made to measure cooperativeness in
3 a democratic and properly constituted cooperative
4 organization. That would certainly appear to be
5 involved.

6 Secondly, retail cooperatives and wholesale
7 cooperatives, for instance, are part and parcel of the
8 locale because that is the only way the local cooperative
9 can provide itself with certain services. It is only
10 part and parcel of the whole deal. It would be quite
11 unacceptable, I am sure. There are people here who
12 could speak perhaps with more authority in respect of
13 retail versus wholesale than I can, but I am sure they
14 would agree that this would be entirely unacceptable
15 to us.

16 MR. McDONELL: First of all you are discussing
17 the question of producer cooperatives and consumer
18 cooperatives. The biggest percentage of consumer
19 cooperatives certainly are producers. Would you split
20 that down the middle and this item being sold to the
21 producer is in a different category than this was?
22 This becomes a physical impossibility. Can you split
23 on the basis of dollar value or on the surplus that
24 is left over, or the number of members? How do you judge
25 size?

26 We have a livestock operation as mentioned
27 earlier. We were handling approximately \$50 million worth
28 of livestock. We were dealing with a small commission
29 agent. Is that actually part of the size? How do you
30 judge it? Do you judge it by the number of members?



1 These cooperatives have many different setups. Really
2 the answer is you judge it on the basis of the income
3 level of the member. In other words you do it on the
4 basis of personal income. There is not any other answer
5 to it. Anything else is completely impractical.

6 MR. STEWART: I am not quite sure I have
7 followed that last part. How do you relate it?

8 MR. McDONELL: You cannot do this on size.
9 You cannot do it on the basis of whether this is a
10 producer cooperative or a consumer cooperative. You must
11 do it on the basis of the taxable income of the member.
12 You do it on a personal income basis and that is all.

13 MR. STEWART: If you are attempting to classify
14 cooperatives are you suggesting that you can classify
15 them on the basis of the individual?

16 MR. McDONELL: We already classify them. What
17 you are trying to do is superimpose a secondary tax here.
18 You cannot have half of your credit on the basis of a
19 personal income scale with another section over here.
20 You would have tremendous repercussions.

21 MR. STEWART: Well, Mr. Chairman, I think those
22 are my questions.

23 THE CHAIRMAN: Are you finished?

24 MR. STEWART: Yes.

25 THE CHAIRMAN: Any more questions? I think that
26 pretty well takes care of our questioning. Have you
27 anything that you would like to say to us?

28 MR. STAPLES: I think if we are coming to
29 the end --

30 MR. FOWLER: Before you come to the end, Dr.



1 Staples, perhaps I should make a comment. I do not do
2 this to provoke more discussion, but I should like to
3 ask that certain areas be looked into a little further.
4 I have already made my contribution with the others to
5 this discussion. You said sometime ago that you
6 appreciated that you could not possibly go into all the
7 areas that were touched upon the briefs. There was one
8 area we had hoped might be looked into and I just want
9 to mention it.

10 It is in the area of deductibility.

11 Through the years we have reached the people
12 and provided them with a service. After paying the
13 cost of that service what is left belongs to the people
14 and we distribute it. It is suggested that what is left
15 is income, but we distribute it and divest ourselves
16 of it and reach the same general position that we were
17 in.

18 There is one more area in the economy which
19 makes money which makes what the coops make look like
20 chicken feed, and I am referring to life insurance
21 companies. In one of the briefs there is reference to
22 this. I hope you have the means at your disposal to
23 get the figures in this regard.

24 To correct an impression I may have left, I
25 should like to point out a few items here which suggest
26 that life insurance companies which are not big distribute
27 in the neighbourhood of \$45 million while others
28 distribute in the neighbourhood of \$157 millions. I
29 think these are American concerns. In discussing this
30 matter with an assessor in a group that looks after



1 life insurance returns, and I will not quote his name,
2 said something to the effect that they assume these
3 companies are deductible; they are simply over-
4 payments of premiums and were not taxable. The life
5 insurance companies take this taxable income and
6 distribute it in some kind of equitable manner. All I
7 am asking is that if in your wisdom you feel there
8 should be some change in deductibility on patronage
9 refunds in respect of cooperatives, I think you also
10 look at life insurance companies unless they are in a
11 completely different category. Perhaps somebody in
12 government should be able to tell us why this should not
13 apply to life insurance companies if it applies to
14 cooperatives. If you are going to tax us you should
15 consider that to be equitable you would perhaps have to
16 tax their companies.

17 THE CHAIRMAN: Thank you Mr. Fowler. There are,
18 of course, many types of organizations and many things
19 we have to look into. Clearly the life insurance companies
20 are in this group.

21 MR. STAPLES: Mr. Chairman, very very briefly
22 I should like to say that we have appreciated the
23 opportunity of coming before you in this rather
24 different way. We hope that you feel that this experiment
25 with an organized group like this has been helpful.
26 We appreciate this effort and from our standpoint we
27 are more than satisfied with it.

28 I should like to add my word of commendation
29 for the way Mr. Stewart has handled the hearings. His
30 questioning has been very clear, logical and helpful.



1 hearings, and indeed with the grace and courtesy with
2 which you have done so. We have been very much impressed
3 with what you have put before us and we are all seized
4 with the sterling qualities of the cooperative movement,
5 I might say.

6 We are charged with a difficult task in trying
7 to spread the cost of government in every place where
8 it should be reposed. I must say that we must look
9 at this task having regard to equity and ability to pay
10 along with every kind of fairness. We must avoid
11 looking at the narrow aspects which one is led to by
12 semantics, and I think we have to be extremely wary.

13 It seems to me that of all the charges imposed
14 upon this Commission there is nothing more difficult
15 than the problem with which we were faced in the last
16 two days and with which we will continue to be faced.

17 I thank you very much, all of you for appearing before
18 us during these last two days and for being so complete
19 in your explanations, making them in such a way that
20 we were able to understand. We are not all expert in
21 these fields and you have very kindly brought us into
22 your schemes in a way in which I think most of us have
23 been able to appreciate and understand. Thank you very
24 much indeed.

25 THE SECRETARY: Just before we adjourn, Mr.
26 Blair has handed me one letter which is an exchange
27 of correspondence between the Deputy Minister of the
28 Department of Cooperation and Cooperative Development.
29 He wishes this entered into the record as an exhibit.
30 It will now be Exhibit No. 212.



1 ---EXHIBIT NO. 212: Letter exchanged
2 between the Deputy Minister
3 of the Department of
4 Cooperation and Cooperative
5 Development and Mr. Blair.

6 THE CHAIRMAN: We will stand over until Monday
7 morning at 9:30 o'clock a.m.

8 ---Whereupon the Board adjourned.
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

ONT.

VOLUME No.:

50

DATE:

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1
2 ROYAL COMMISSION ON TAXATION

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4 Hearing held in the Centre Court
5 Room, Exchequer Court of Canada,
6 Supreme Court Building, Wellington
7 Street, Ottawa, on Monday, October
8 7th, 1963.

9
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12 MR. J. HARVEY PERRY

13 MR. A. EMILE BEAUVAIS

14 MR. DONALD G. GRANT

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LIST OF EXHIBITS

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Ottawa, Ontario,
Monday,
October 7, 1963.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Secretary, it is now 9:30
and we might as well commence.

THE SECRETARY: Good morning Mr. Chairman and
Commissioners. On August 30th we received in the
Commission office a brief from Imperial Oil Limited.
Representatives of this company are before you this
morning, and the delegation is led by Mr. W.O. Twaits,
President of Imperial Oil Limited who will speak to the
brief in the first instance. I should like to enter
this brief into the record as Exhibit No. 213.

---EXHIBIT NO. 213: Brief by Imperial Oil
Limited.

THE CHAIRMAN: Good morning Mr. Twaits and
gentlemen. We are glad to see you this morning. For my
part I introduce to you our Commission members. Their
names are before them here. When I get through I would
be glad if you, Mr. Twaits, would introduce the members
of your delegation. We very much appreciate the efforts
you are making on our behalf. You have given us a
most informative submission, which we have all read with
a great deal of interest.

This morning we would like to question you
with regard to these matters, but before doing so, if
you have anything you would like to add or summarize or
speak to, we would be very glad to hear you. If you
would introduce your delegation now I would appreciate
it.



1 MR. TWAITTS: Thank you, Mr. Chairman. We
2 regard it as a privilege to appear before this Commission.
3 Before I make a short opening statement I should like to
4 introduce my colleagues. A considerable number of
5 people in our organization have contributed to this
6 brief, and those who probably spent most time on it are
7 here today. First of all, on my extreme left is Mr.
8 S.E. Ewens, Assistant Comptroller. To my immediate left
9 is Mr. J.W. Hamilton, Q.C., the Director of our company.
10 On my right is Mr. J.F. Barrett, Q.C., our general
11 counsel. Behind us sit a number of people who have
12 contributed to our brief. First is Mr. Bruce Mackinnon,
13 Executive Assistant. Then there is Mr. V. Holland,
14 Comptroller of Taxation, Mr. Jack Pattison, Economics
15 Adviser, and Mr. R.S. Ritchie, who is a director of the
16 company. I do not intend to draw these people in,
17 sir, but it is a reflection of how many people have
18 contributed to the work of preparing the brief.

19 THE CHAIRMAN: We would be delighted if you
20 cared to draw them all in. The last submission was
21 presented by twenty-eight people.

22 MR. TWAITTS: Then I feel better, thank you sir.
23 I have a short opening statement to make, Mr. Chairman,
24 if I may proceed now.

25 THE CHAIRMAN: Please do.

26 MR. TWAITTS: Our company submission, as you
27 can see, has not been confined to factors affecting our
28 industry or company per se, but instead expresses our
29 views with respect to broad fiscal and economic needs.
30 This, indeed, reflects the importance we attach to the



1 Commission's investigations and the indivisibility of tax
2 problems, fiscal, economic and social objectives.

3 In addition, however, there are two other
4 factors affecting our company which require emphasis and
5 our thinking in this brief. First of all, we believe
6 that we are exposed to a greater diversity of taxes than
7 any other industry stemming from the complex of operations
8 ranging from extraction through intensive manufacturing
9 and finally to retail marketing. Secondly, we are
10 exposed to virtually every facet of economic life and
11 virtually every taxing jurisdiction in the country. The
12 economic welfare of our operations therefore depends not
13 on the fortunes of an economic group or entity but on the
14 general health of the country as a whole.

15 Let us place this in better perspective.

16 For example:

- 17 (a) In the field of petroleum products, our
18 company's sales are overwhelmingly made
19 to industry including transportation,
20 construction, manufacturing, etc. Only
21 20 per cent of total volume goes through
22 the retail service station to the
23 motorist, with which we are most
24 frequently identified.
- 25 (b) As large producers and exports of crude
26 oil and natural gas and hence as large
27 purchasers of raw material and equipment
28 in many parts of Canada, we are concerned
29 with the competitive cost position of
30 ourselves and other Canadian industry



1 and hence with fiscal and monetary
2 policies which affect our competitive
3 export position.

4 (c) In chemicals we supply raw and intermediate
5 organics to a variety of industries both
6 in the domestic and export market. I
7 believe at the present time about 17 per
8 cent of our chemical sales in dollar
9 volume are going into the export market.

10 (d) Finally, we are a capital intensive
11 industry in that continuing large
12 injections of fixed capital are necessary
13 to meet technical and market obsolescence.
14 Over the past ten years, our company's
15 annual expenditures for new plant and
16 equipment plus exploration for new
17 reserves has averaged \$103 million.
18 This is 171 per cent of average earnings
19 and 287 per cent of average dividend
20 payout during the same period.

21 THE CHAIRMAN: What period is that?

22 MR. TWAITTS: This is the past ten years.

23 On these grounds we have a heavy stake in the
24 welfare of the Canadian economy in general and Canadian
25 industry in particular. By the same token our capital
26 and exploration expenditures, 90 per cent of which are
27 made in Canada, are of vital importance to manufacturing
28 industry in this country.

29 We believe that fiscal policy and the resulting
30 taxation is the greatest problem facing Canada today and



1 in the foreseeable future. There is indeed little use
2 in discussing economic, social or political objectives
3 unless these are based upon a soundly conceived, consistent
4 fiscal structure appropriate to external as well as
5 internal considerations.

6 Mr. Chairman, I have no intention of repeating
7 the general views expressed in our brief, all of which
8 were directed to this concept. However, there are two
9 questions on which I would like to enlarge. These
10 questions relate to the effects of taxation on business
11 decisions and to the incidence of taxation.

12 At the moment our company has before it capital
13 projects and programs totalling somewhere between \$85
14 million to \$95 million which would be commenced in 1964.
15 Any increase in taxes which contributes to the cost of
16 construction of such facilities simply reduces the
17 incentive and desirability of undertaking such
18 productive investment. Taxation of corporate income has
19 the effect of reducing the net return and so has a
20 tendency to render sub-marginal otherwise economic
21 ventures. The effect of taxes which add to costs and
22 taxes which reduce results -- that is, returns -- is
23 multiplied in situations where, as is becoming more
24 common, large investment must take place in advance of
25 a profitably sized market or an economic scale of
26 production. Thus, we can say that taxation on productive
27 investment, no matter what type, either through sales,
28 commodity or income taxes, directly affects the
29 investment cycle and therefore the prosperity and
30 economic health of the country.



1 The problem is much greater and much more
2 important than its impact on the affairs of the
3 individual company. In the introductory comments to
4 our brief we have pointed out that economic growth and
5 employment depend on the growth of industry which in turn
6 depends on investment. This is a matter of fact and
7 not controversy. We respectfully suggest to the
8 Commission that this is probably the most single important
9 concept which must be injected into fiscal policy in
10 this country.

11 Capital generation -- and I am using this term
12 in the broadest sense -- or in reality insufficient
13 capital generation with consequent effect on employment
14 and economic growth is the real answer to the question
15 of effects of taxation on business decisions and the
16 incidence of taxation. In short, in our view, the
17 incidence is expressed in the form of unemployment and
18 the business decisions are reflected in the lack of
19 necessary economic growth.

20 The Commissioners may have seen a recent
21 article in "The Economist" of September 7, 1963 which
22 provides some statistical validity to the conclusion that
23 the impact of taxes on capital is passed on in such a
24 way as to leave the net return substantially unchanged.
25 It is important to recognize that a major mechanism
26 through which the taxation of capital is compensated
27 lies in the reduction in the number and nature of the
28 ventures which can be undertaken. "The Economist"
29 article confirms our view that since capital is essential
30 for growth, its taxation is bound to be reflected in lack



1 of growth if not in outright decay.

2 We believe you have already had testimony
3 before you concerning the relationship between federal
4 budget deficits or surpluses and the importation of
5 capital. To this we would add the following:

6 (a) The return on capital in our industry,
7 for example, and many others -- to the
8 extent we can determine it -- is
9 substantially less than that which can
10 be obtained in the U.S., the U.K., or
11 Europe. There is, in effect, less
12 incentive for the investor. This may
13 be due to our "open economy, and to the
14 structural handicaps which we have to
15 absorb in order to compete in the
16 domestic as well as world markets.

17 (b) If we want the economic growth which
18 results from investment in industry,
19 then there must be an inducement to
20 capital which is at least competitive
21 to other politically stable areas and
22 also to the long-term rate of interest.
23 I am using "long-term" in the sense
24 of mortgage rates or what have you.

25 (c) One comes to the inescapable
26 conclusion that fiscal policy in this
27 country, perhaps more than any other,
28 should be directed toward increasing
29 capital generation and capital
30 investment. There is a fundamental



1 sequence here which needs to be re-
2 established -- namely, industrial
3 investment depends on investor
4 incentive; depends on ability to
5 compete in domestic and world
6 markets; and depends on costs,
7 including taxation. The best tax
8 policy for Canada is one which
9 consistently encourages the productive
10 generation and employment of capital.
11 Only by such a policy will we secure
12 the additional jobs and economic
13 growth we are seeking.

14 This conclusion is rendered the more forceful,
15 to us at least, by a consideration of the enormous
16 effect of modern technology and technological change on
17 the development of Canadian industry. In using the term
18 technology we are not simply referring to the pace of
19 scientific development and the resulting emergence of new
20 products and new processes, and so on. We must accept
21 the fact that no country or area has a monopoly of
22 industrial know-how such as existed in the United Kingdom
23 for a period following the industrial revolution in the
24 late 19th century. Rather, I am referring to the
25 combined forces of technology which result in more
26 complex industrial processes, more costly equipment and a
27 vastly increased capital requirement to produce and
28 market a given physical volume of any product.

29 This is a trend which we have experienced to
30 a high degree in our industry, so much so that a modern



1 refinery represents an investment of probably \$100,000.00
2 per employee, exclusive of working capital -- an increase
3 of tenfold over a period of twenty years. In other
4 words, our capital requirements per unit of sale are
5 much higher today and this is a trend in all industry.

6 If then we are to sustain competitive industrial
7 development in this country, we must recognize that this
8 will require increasing quantities of fixed capital, much
9 more so than in the comparatively elementary
10 manufacturing operations typical of even 25 to 30 years
11 ago. This of course is another point of emphasis on the
12 importance of capital generation.

13 At the risk of sounding like a repeater Mr.
14 Chairman, the important point to us in this is that
15 employment depends on manufacturing enterprise which
16 depends on incentive to capital investment at a much
17 higher investment cost per unit of product and therefore
18 correspondingly greater risk under the pressure of
19 competitive technology. Earlier, we pointed out that
20 there was a risk in over-generalizing on these questions
21 of business decision and tax incidence. Certainly,
22 while there may be controversy over the size of the
23 incentive necessary for capital investment, there can be
24 no argument that expansion of employment requires
25 capital investment. I suppose in a democratic society,
26 it is difficult to visualize complete optimization of
27 economic facts and social objectives within the
28 boundaries of practical political action. However, in
29 our opinion, the Commission must evolve, at least
30 directionally, a sound underlying basis for fiscal



1 policy. Otherwise, the trees which are consistently
2 obscuring the forest will continue to do so. We
3 respectfully suggest that the forest in respect of
4 Canada is an urgent need to facilitate the generation
5 of capital -- and again I am using that term in its
6 broadest sense -- by methods which have the consistent
7 objective of maximizing the competitive position of
8 Canadian manufacturing industry. All the recommendations
9 in our formal submission really point to this end.

10 Mr. Chairman, I have two very small points of
11 differentiation as an added explanation to our brief, if
12 I might give it informally now.

13 THE CHAIRMAN: Yes, please do.

14 MR. TWAITTS: One of these concerns the
15 petroleum industry which, for many reasons, has become
16 identified in this country with the exploration and
17 production of crude oil and natural gas in Western
18 Canada.

19 I would simply like to make the point that
20 while is a very important part of the business, the
21 largest portion of the assets and employment are
22 concentrated in manufacturing these chemicals,
23 distributing and marketing them, so that the petroleum
24 industry must be looked upon in that regard and not
25 confined to the exploration and production of crude
26 oil.

27 I would like to add one more work of
28 explanation, that one of the problems we have had in
29 discussing this industry is a background of mining
30 experience in this country but where we tend to think



1 that prospecting for oil and gas has the same force as
2 mining. I would simply make the point that the
3 difference between these two things is, first of all,
4 historically your exploration expenditures in mining are
5 a very small fraction compared to your total
6 development expenditures. On the contrary, in the oil
7 and gas business you explore very, very heavily and your
8 development costs are of a much smaller proportion. Of
9 course, the role of the oil entrepreneur applies in many
10 ways, and I am simply trying to clear up these two
11 points before we proceed.

12 THE CHAIRMAN: The first of the two points you
13 mentioned concerns the petroleum industry and you are
14 trying to indicate that it covers a very large area,
15 some of that area being chemistry.

16 MR. TWAITTS: Yes.

17 THE CHAIRMAN: That is easily comprehended in an
18 integrated business because of the oil companies being
19 partial ownership with other companies, and so on. They
20 have got into the chemical industry, but I assume there
21 is a great deal of the chemical industry which would
22 not accept membership in the petroleum family.

23 MR. TWAITTS: That is quite right, sir.

24 THE CHAIRMAN: And I imagine the line is not a
25 very clear line.

26 MR. TWAITTS: No sir. In fact, in the field
27 of organic chemicals today, where the line is drawn none
28 of us will ever know. I think you must start from the
29 point that crude oil is a collection of organic compounds.
30 There is a tremendous range of organic compounds, and



1 anything that is capable of origination or synthesization
2 from organic compounds can be made from crude oil. We
3 are simply, in the chemical end of the business,
4 competing with other sources of the same chemical
5 compounds.

6 THE CHAIRMAN: Thank you. I think the procedure
7 I would like to follow is to direct a few general
8 questions to you, first of all, perhaps, having regard
9 to your opening remarks, and then to Part A of the
10 submission. After that we would ask our counsel, Mr.
11 Stewart, to lead us in the more technical part of your
12 submission. It really starts in Part B, I think.

13 MR. TWAITTS: That is right.

14 THE CHAIRMAN: And it goes on from there. The
15 first matter I see which is of the greatest importance
16 to us is your tremendous emphasis on fiscal policies
17 being geared to impart the generation of capital and
18 industrial investment. We are, of course, curious about
19 that.

20 It is often pointed out that before we need
21 equipment or buildings we need a market, and the
22 question is whether the emphasis should be in favour
23 of the consumer or of the producer for capital
24 generation, or perhaps, as it seems to be in the United
25 States, somewhere divided between the two.

26 I think many economists are inclined to put
27 emphasis on market development before the generation of
28 capital for plant.

29 We have endeavoured to have a look at the
30 age of Canadian equipment, wondering whether it is



1 obsolete. There is so little information on that, it
2 is almost impossible to tell. Would you care to say
3 something as to why you place more emphasis on capital
4 generation than you do on consumption generation?

5 MR. TWAITTS: I think the two, Mr. Chairman,
6 go completely hand in hand. I would like to differentiate,
7 first of all, that with respect to Canada and other
8 countries, the United States is one of the greatest
9 common markets in the world. We accept the fact that
10 the standard of living in this country depends on the
11 fact that we have the ability to export. It also depends
12 on the fact that we have a relatively open economy. Now,
13 that means the domestic producer and the exporter are
14 living roughly within the same framework of world
15 competition. So, capital generation, in my definition
16 of the word, is not in conflict with the economist's
17 market development.

18 If you are going to maintain a free market
19 position you have to have a cost structure which will
20 permit you to sell either against other sources of supply
21 or against the fellow who is trying to import into your
22 country. In that sense the word "obsolescence" is a word
23 that I say cannot be talked about in the same sense it
24 may have been fifteen or twenty years ago. You cannot
25 exist on old equipment. You have to be competitive.
26 So, I take all that in in capital generation. If we
27 want growth we have to be competitive in a market, and
28 then we have to be able to build equipment, manufacturing
29 and production facilities, at a cost under which we can
30 operate competitively with other places with some



1 attraction to capital.

2 So, the two are not in conflict. Market
3 development goes hand in hand with getting the necessary
4 capital to be competitive.

5 THE CHAIRMAN: So that if the government
6 decided to pump more money into the private sector it
7 should have regard both to raising the burden of taxes
8 on consumers, and also encouraging further industrial
9 investment. You would not like to say which would go
10 forward or whether at the present time there should be
11 an equal distribution? I was taking it that your
12 emphasis was definitely on the generation of capital.

13 MR. TWAITTS: Yes, but I do not want to mislead
14 anybody. The term capital or capital generation is not
15 just money or profits. I am using it in a much more
16 complete sense of productive facilities and competition.

17 Opposition, as I see it, and as we have
18 endeavoured to show in this brief, is that there should
19 be much greater weight given to this question of the
20 competitive position in all phases of the industry. I
21 do not know whether my colleagues have anything to add
22 here.

23 COMMISSIONER PERRY: There is one point I was
24 going to ask you about specifically, Mr. Twaits, and you
25 almost anticipated it in your supplementary remarks.
26 I was wondering as to the exact extent to which changes
27 in taxation affect your investment plans. People are
28 fulsome with generalizations on this subject, but very
29 seldom you have a person saying that specifically they
30 had a program and that it would be affected by 10 per



1 cent with "X" change in taxes, or that taxes are one of
2 the concrete elements to be taken into account in working
3 out investment plans. Could you develop your own
4 practices on this a little bit for us?

5 MR. TWAITS: We would be delighted to, Mr. Perry,
6 and we were kind of hoping somebody would ask us that
7 question.

8 COMMISSIONER PERRY: I have been waiting about
9 three months to ask somebody this question.

10 MR. TWAITS: I can get at this in many ways.
11 I will start out with a relatively simple example. First
12 of all, the easiest example is a refinery. An economic-
13 sized refinery in the Ontario area today, that is, one
14 capable of competing, cannot have less than 30,000 to
15 35,000 barrels per day capacity. I think that would
16 be the minimum. I doubt if anybody would want to build
17 one quite that small. Now, that requires a minimum
18 outlay of \$30 million to \$35 million in physical equipment,
19 and possibly another \$15 million to \$17 million in
20 working capital for processing, supplies, and so on.

21 So, right off the bat you have \$50 million
22 involved. Now, there is quite a degree of pre-investment
23 in that. As you will imagine, when you can see the
24 necessity for an extra 5,000 or 10,000 barrels a day and
25 you have to, to use a technical term, unbottleneck
26 everything you can bottleneck, you are left with 5,000
27 to 10,000 barrels a day, and you cannot build something
28 of that size and have it left on the market. Therefore,
29 what you do is build for 30,000 to 35,000 a day and you
30 pre-invest. In other words, you take the long look at



1 this thing. Like most other industries, the return on
2 a shareholder's investment in our industry is probably
3 8 to 9 per cent, and obviously the difficulty is that
4 any increase in cost is going to seriously affect the
5 pre-investment period.

6 Another example is in the chemical field. In
7 chemicals our company, like most other companies in this
8 country, has a basic problem of the size of the market
9 in Canada. The total market in Canada for all the
10 organic chemicals is less than sufficient for one
11 economic-sized plant. Therefore, we have to undertake
12 a long pre-investment period, and in so doing we are
13 trying to put ourselves in the position of being
14 competitive eventually with adjacent export markets.

15 For a variety of reasons I do not want to
16 give the notion that we are just building for the export
17 market, but we want to build with the ability not only
18 to compete in these markets but to compete with exports
19 against us.

20 Coming down to concrete facts, the treatment
21 under tax provisions today governs to a large extent
22 whether we think we can take the necessary length of pre-
23 investment period for our projects. In other words, we
24 may have to defer for one to three years because they
25 are marginal to begin with, very marginal. They require
26 the commitment of a great deal of money to the extent
27 that if you increase the cost of the investment you
28 simply refuse prudent judgment on the part of management
29 in order to justify himself with his shareholders.

30 COMMISSIONER PERRY: I wonder if you would mind



1 explaining a little bit further what is in your mind when
2 you say "increasing the cost of the investment"? I
3 can see this as a prime example where you have sales
4 taxes coming in, but could you think of it in terms of
5 the two aspects of this, which concerns most people, your
6 cash ability to invest and your incentive to invest?
7 Where does the cost element come in here?

8 MR. TWAITTS: Let us look at it this way. We
9 look at a specific project. Let us say it is a \$20
10 million project. In order to design and construct it,
11 it will take two and one half years. Therefore, there
12 are two and one half years before the plant is available
13 for operation. Now, then, we have to estimate our market
14 and our competitive position starting in two and one half
15 years and, knowing that in most cases we have to over-
16 build in order to be competitive, we look at quite a
17 lengthy period. In assessing the desirability of that
18 investment we have to take a long look at the market
19 situation in Canada. How much it costs you to operate
20 the plant depends a good deal on where the incidence of
21 taxation is, and that is why we and so many other people
22 protested so vigorously about the tax on machinery and
23 process equipment.

24 On the type of equipment we are using, the
25 application of a sales tax will work out to roughly, if
26 the tax is 10 per cent, to an increase in our cost of
27 about 7 to 8 per cent -- the material is that big a
28 proportion of it. So, this is the first thing. You have
29 this addition to your cost. The second thing you look
30 at in the way of return is that when you do get a profit,



1 what is your net profit, and of course this is directly
2 effected by the corporate income tax.

3 One of the real problems is how far this thing
4 pyramids in between. Is that a partial answer to your
5 question, Mr. Perry?

6 COMMISSIONER PERRY: Yes. It is coming closer
7 to one particular aspect of it, and that was the rate of
8 return on the investment, for it is here that the
9 corporation profits tax is most relevant. May I ask
10 whether there is any generally accepted gross rate of
11 return in the petroleum business?

12 MR. TWAITES: Sir, I wish there was, for there
13 is a great variety in it today. As to other companies,
14 I do not know, but within our own company we have over
15 a period of thirty years developed, we believe rather
16 sophisticated analyses of investment projects and
17 programs. We cannot say at any one time that a project
18 should have ten per cent, 15 per cent or 20 per cent.
19 I think what is of concern, and this is reflected in our
20 brief, is that the return on the shareholder's investment
21 in capital in the manufacturing industry today, outside
22 of ours, is in most cases not very much more than 7 to
23 9 per cent. Now, when you take a mortgage at 7 or
24 7½ per cent, we obviously haven't got the right balance
25 here. I cannot say, and I do not think anybody should
26 say, this is a factor of structural handicaps, but we
27 do have structural handicaps and therefore we cannot
28 afford the level of taxation that some other economies
29 can. This is a fiscal fact of life we have to live
30 under.



1 THE CHAIRMAN: Do you not suppose that one of
2 the reasons equities are as expensive in Canada as they
3 are is this fact? There are two things that one as a
4 prospective shareholder can look at: One is the dividend
5 credit and the other is the accumulation which is
6 customary to most corporations in which the shareholder
7 receives tax free. Those facts, I would think, go some
8 distance in making equities expensive.

9 MR. TWAITS: I agree with you, Mr. Chairman.
10 There are some awfully complicated factors in how
11 expensive equities are in this country -- whether there
12 are enough of them and whether we have the right division
13 of investment money in the country. But I would like
14 to turn that question around and put it a little
15 differently. I would think that we would be faced with
16 a great problem if the corporate income tax was reduced
17 in the United States.

18 THE CHAIRMAN: Why? Let us proceed with that.
19 That is a good point.

20 MR. TWAITS: I think it speaks to your point
21 because of what I will call an improvement either in what
22 the investor is willing to accept or in the cost position
23 of the company. It doesn't matter which way you put it.

24 THE CHAIRMAN: Assuming that the corporation
25 tax is passed on and the cost factor is affected, it means
26 the Canadian company costs become higher than the U.S.
27 costs.

28 MR. TWAITS: Or, in other ways, it is less
29 attractive to invest in Canada than somewhere else
30 because your international market does not reflect all



1 these things. It is like the farmer in Peace River who
2 takes a lower net back on his wheat than the fellow in
3 Manitoba. This, I think, is the international effect
4 of taxation when you are competing today in such a
5 variety of ways and sources.

6 THE CHAIRMAN: Would there be a minimum effect
7 on petroleum exports?

8 MR. TWAITTS: I could not say minimum, no. I
9 could not say minimum.

10 THE CHAIRMAN: The long range, possibly.

11 MR. HAMILTON: So far as the petroleum export
12 market is concerned it is pretty well the world price
13 anyway, so it would not have any effect on the volume of
14 exports.

15 MR. TWAITTS: I would answer that question
16 another way. Again I will come back to the fact that
17 capital is going to go, even capital in this country,
18 where it can get the most attractive return. Now, it is
19 not attractive, taking into account strategic considerations
20 and other matters, to explore and develop new reserves in
21 Western Canada as opposed to some place else. Well,
22 then, we will not get reserves, but it is not measurable
23 exactly in price because there are political stabilities
24 and strategic considerations of which, let us say,
25 corporations are just as aware as governments are. On
26 the other hand, there are segments of manufacturing
27 industry, and getting out of the prospecting field itself
28 and going into manufacturing alone, where I think you
29 can say it is, in the matter of chemicals that we export
30 into the United States markets we are basically in



1 competition with the U.S. Gulf, that is the south-west,
2 because we have a freight advantage over them. Now, to
3 the extent there is a change in taxation which reduces
4 their cost and increases ours, and I do not care what
5 kind it is, then we are less competitive in the market.
6 It is like Paris or anything else, Mr. Chairman.

7 THE CHAIRMAN: I think you are clearing up an
8 uncertainty which I had derived from your submission in
9 that you indicate that corporation tax is generally
10 considered to be passed on, and then you refer to the
11 fact that petroleum products are priced according to
12 world markets, and under the latter condition Mr.
13 Hamilton says that any change in the Canadian tax could
14 not be freely passed on and would probably rest on the
15 shareholders.

16 MR. HAMILTON: There would be a greater squeeze
17 so far as the company is concerned once you are in the
18 export market.

19 THE CHAIRMAN: You are assuming an increase in
20 tax?

21 MR. HAMILTON: That is right.

22 THE CHAIRMAN: All right, you can say that an
23 increase in tax might be borne by the shareholders under
24 these circumstances, but I do not suppose that all your
25 products are set by world prices.

26 MR. TWAITTS: Virtually everything. You see,
27 the duty protection is a minimum factor and has been
28 traditionally. In many ways this has been good because
29 you develop a lot of things out of it, but when you say
30 it is passed on to the shareholder, Mr. Chairman, I think



1 what we are trying to say is that you do not see that
2 because it reflects itself in lack of business decisions.
3 It reflects itself in a plant that was not built, and so
4 on. Therefore, to say that the incidence falls on the
5 shareholder is not quite right. I think it falls on the
6 economy, by the lack of something being done.

7 THE CHAIRMAN: Your job is to make a profit for
8 the shareholders and therefore whatever you do is
9 directed ultimately to that. If it is not being borne
10 by the customers it is being borne by the shareholders.

11 MR. TWAITS: One of our jobs is to make a
12 profit for the shareholders, but there is an awful lot of
13 other things too. There is a responsibility to the
14 customers and the public.

15 COMMISSIONER GRANT: Before leaving the question
16 of return on investment do I understand, Mr. Twaits, you
17 would look to a shareholder's return on his capital
18 investment as being somewhere between
19 7, 8 or 9 per cent?

20 MR. TWAITS: I say that that is happening today.
21 I do not regard it as desirable, Mr. Grant.

22 COMMISSIONER GRANT: If I followed you it seems
23 to me to be very high. Do you mean to say that if a
24 shareholder investing in a corporation receives back a
25 return --

26 MR. TWAITS: Oh, no. You are talking about
27 return on equity, on the purchase of stock on the market.

28 COMMISSIONER GRANT: Right.

29 MR. TWAITS: I am afraid they are getting only
30 a little bit over 3 per cent on our stock. I am talking



1 about the total earnings of our company.

2 COMMISSIONER GRANT: Before tax?

3 MR. TWAITS: After tax, and today in many
4 organizations it is roughly not more than 7 to 8 or 9
5 per cent.

6 THE CHAIRMAN: You are relating that to the
7 balance sheet?

8 MR. TWAITS: The balance sheet, Mr. Chairman.

9 THE CHAIRMAN: What is the price/earnings ratio
10 in the petroleum industry? What is the range?

11 MR. TWAITS: We were unable, Mr. Chairman, to
12 give you complete data on that. We will search it out as
13 far as our own stock goes. It is running at about 3
14 per cent. Excuse me, but you are referring to the price
15 dividend?

16 THE CHAIRMAN: Yes. The price ratio would be
17 somewhere between 15 and 20, would it not?

18 MR. TWAITS: The ratio would be about twenty
19 to one.

20 THE CHAIRMAN: And your pre-tax price-earning
21 ratio, which I think is a very interesting figure because
22 we are concerned with taxation of oil companies as
23 opposed to taxation of the economy generally, would be
24 30 per cent?

25 MR. TWAITS: Yes; our effective tax is 39 to
26 40 per cent.

27 THE CHAIRMAN: If you can let me have that I
28 can work back from there.

29 MR. TWAITS: It is roughly thirty to one, Mr.
30 Chairman. That is as of last year, of course.



1 THE CHAIRMAN: If you were taxed at a 50 per cent
2 tax rate, we might therefore assume, I suppose, that your
3 shares would sell at a different price than they now
4 sell it and there would be less attraction to invest.

5 MR. TWAITTS: I would say that if our effective
6 tax rate goes up we cannot all of a sudden turn around
7 and we cannot in fact over a long period within a given
8 taxing jurisdiction, bearing in mind we compete against
9 outsiders, pass that on to the consumer. By so doing
10 we would have less return. What happens in the market
11 with others I would not hazard guess, but I would say it
12 would certainly reduce the desirability of investment.

13 THE CHAIRMAN: I would guess that in the market
14 the significant ratio is the price-earning ratio after
15 tax. I think that if one takes the market broadly and
16 looks at these figures one can indicate the ratios between
17 companies and between risks on that basis, and so I
18 think it would have a most significant effect on the
19 value of petroleum industry shares should they be taxed
20 at 50 per cent. That is what I am saying.

21 COMMISSIONER WALLS: Mr. Twaits, it seemed to
22 me there was an inconsistency here. Perhaps it is my
23 lack of understanding. You were asked if you did not
24 think that the ^{savings through} tax changes you are suggesting here would
25 go towards the shareholder rather than to the consumer.
26 I understood you to say the shareholder, but when you
27 were talking about the current tax on machinery of
28 production you stated that that worked out at the
29 equivalent of 7 per cent, which you had to pass all the
30 way down to the consumer. Am I right in that?



1 MR. TWAITS: No, sir.

2 COMMISSIONER WALLS: Then could you clarify that
3 for me? Let us make it simple. If you received the tax
4 changes you suggest, to what extent would they be passed
5 on to the consumer?

6 MR. TWAITS: I have endeavoured to make two
7 things clear, Mr. Walls. Perhaps I could repeat them in
8 that context. First of all, with regard to the 7 per cent
9 that you referred to, I was talking about an investment
10 decision to build or not to build a plant. If you
11 increased the cost of that plant by taxation then this
12 makes it less attractive to invest, and where there is pre-
13 investment involved you could be simply putting it off.
14 It is not a question of passing it on. It is a question
15 of a positive decision that you might have to build
16 something and generate capital, and which you do not do.

17 Turning around on the other side, if there is
18 a change in taxation today -- and this is an over-
19 generalization -- I would like to qualify it in so far
20 as it affects manufacturing and marketing and say that
21 we cannot really pass on except where it is a consumption
22 tax, where it is a provincial sales tax or something of
23 that nature, a highway tax or something like that.

24 But we cannot pass on taxes behind that. To use an
25 illustration, our price structure is so sensitive at
26 border points that as little as a quarter of a cent a
27 gallon difference in price of products will start truck
28 movements back and forth. Therefore, changes behind
29 manufacturing process cannot be passed on --

30 COMMISSIONER WALLS: To the consumer?



1 MR. TWAITS: -- to the consumer. Again they
2 will result inevitably in less attractiveness to the
3 fiscal investor, and lack of these positive decisions
4 that we want, and I am using positive decisions in the
5 realm of manufacturing investment, keeping ourselves in
6 competition and, of course, providing employment.

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1 I think this is a very complex thing, to divide
2 this up between shifting to the consumer and not shifting
3 to the consumer. If you put a consumption tax at the
4 end and then apply it to everybody who sells that
5 product, then undoubtedly it is going to be picked up
6 by the consumer. That does not mean to say that it does
7 not affect your position, because you may at that level
8 be putting the tax on your products which distorts the
9 competitive position with some other competitive
10 products. On the other hand, when you go to buy the end
11 product of the sale, you are up against a competitive
12 set of factors which simply reduces the return on the
13 investment.

14 I cannot quite agree that this is, as you say,
15 an incidence on the shareholder. As I see it, it
16 eventually comes out in less investment incentive and
17 fewer investors.

18 COMMISSIONER WALLS: Talking about the
19 consumers and against your position briefly, is your
20 industry not really faced at the present time with a
21 system of costly distribution? Is it not a fact that
22 either directly or by subsidization you are encouraging
23 your industry to build ^{service} stations because your competitors
24 build them on the opposite
25 corner of a street, for example. Have you not got a
26 very costly distribution system?

27 MR. TWAITES: I hope that we are not guilty of
28 that kind of economic nonsense, Mr. Walls. It may
29 interest you know that up until the last couple of years
30 there were actually fewer gasoline outlets in Canada



1 than there were in the 1930's.

2 COMMISSIONER WALLS: But in the thirties you had
3 one station with one pump, and today you have one station
4 with eight pumps.

5 MR. TWAITS: Yes, that is true, but the point
6 I am trying to make is that the throughput outlet has
7 steadily gone up.

8 I suppose no part of our industry has been
9 under more severe pressure in the last five years -- and
10 this is typical of the whole marketing industry, whether
11 it be the marketing of lamps, toasters, or whatever it
12 is, and competition is taking care of it -- there are
13 instances of over building, with perhaps too many service
14 stations. There is, of course, one way to let it handle
15 itself, and that is just by competition.

16 On the other hand, I think a generalization as
17 to the over building of service stations is a little
18 mistake and cannot be backed up by facts; in other
19 words, it is a myth. There is some over building in
20 specific areas, but do not forget that every year we
21 take out of service a great many things and bring in
22 new things, because there are changes in urbanization,
23 in buying habits, and in many other things.

24 COMMISSIONER WALLS: In section 7 there is
25 another matter that is not quite clear to me. You
26 state -- and I don't question this -- that Canada and
27 Canadian industry must achieve a more sustained rate of
28 growth in the expansion of exports. I presume you apply
29 that to your own industry, that is, that same theory.

30 MR. TWAITS: No question about that.



1 COMMISSIONER WALLS: As part of the taxation
2 changes that you suggest, if you were given a greater
3 advantage of entering any other countries, would your
4 industry have the freedom to enter the United States markets
5 in competition with your parent companies, because both
6 you and the majority of oil companies are controlled by
7 United States parent organizations?

8 MR. TWAITS: Let me say first of all that I
9 cannot speak for any other company except our own. We
10 are exporting; we have no problem of that kind. We are
11 not only exporting crude oil, we are exporting chemicals.
12 It is a question of competitive factors. I might add
13 that in exporting crude oil, one of the companies that
14 is principally affected by our export from the United
15 States happens to be an affiliate of ours. So, we are
16 in complete competition.

17 COMMISSIONER PERRY: Mr. Twaits, this very
18 broad issue with respect to the balance of direct and
19 indirect taxation is one on which we have had views
20 expressed from the very beginning. I have been admiring
21 your foot-work in avoiding this question in our
22 examination of you, and I am not sure that even your
23 brief comes down very firmly on it. At page A-11, at
24 the end of the top paragraph, you say this:

25 "We feel that the Commission
26 should give high priority to means
27 of reducing the corporate income tax,
28 even at the cost of increasing the
29 level of consumer taxes."

30 Do you have any view on this suggestion as to whether



1 there are advantages in having more of one and less of
2 the other?

3 MR. TWAITS: I think, Mr. Perry, that the brief
4 reflects a certain amount of what is perhaps the
5 Commission's problem ---

6 COMMISSIONER PERRY: Indecision.

7 MR. TWAITS: -- of resolving what is a very
8 difficult thing. That is one reason I pointed out that
9 the problem of superoptimization of the tax structure is
10 inherent in our system.

11 THE CHAIRMAN: What is that word?

12 MR. TWAITS: "Superoptimization" -- it is not
13 optimum. Perhaps I might expand it this way: What we
14 are trying to say is that the Canadian tax structure,
15 which has become involved like everything else has, but
16 is usually on a basis of experience elsewhere -- needs
17 to be modified as to the peculiarities of our structure
18 and our consideration.

19 Those peculiarities include the fact that we
20 cannot live unto ourselves; we must be competitive in a
21 relatively open economy. All of us who studied this
22 kind of theory have an uneasy feeling that the canons
23 of taxation say that direct taxation is the best.
24 However, there has been an enormous change in this, with
25 the transfer of payments and so on. You come down to
26 the fact, if you want to reconcile what we seek in way
27 of growth in a competitive business, you have to
28 recognize the minimum level of transfer payments and
29 social benefits. Then, you bring yourself to the fact
30 that maybe we have to pioneer this field a little to



1 reduce the level of direct taxation, or giving an
2 incentive to investment capital. We have to recognize
3 that we are going to have to get this down at least to
4 a reasonable level.

5 Therefore, we back our way into the fact that
6 you are going to have to have higher consumer taxation;
7 and, of course, this brings in our other thought that
8 the base must be as wide as possible. We cannot tolerate
9 the exemptions and allowances in this type of economy.

10 THE CHAIRMAN: Do you have any uneasiness about
11 the inflationary effect of increased consumer taxation?

12 COMMISSIONER PERRY: May I expand that a
13 little, Mr. Chairman?

14 We have been talking to some European economists,
15 and when they examine this idea critically they are
16 thinking along this line

17 If the importation tax is passed on, one

18 would have to assume that if the corporation tax
19 were taken off the price would come down by the same
20 amount. If this did not happen we would replace the
21 corporation profits tax by a consumption tax. This
22 would increase the price, it would increase the costs,
23 it would increase the demand for higher wages, and you
24 might end up by being worse off on your cost structure
25 for export than if you had not done anything in the
26 first place.

27 MR. TWAITTS: Well, when I say we backed into
28 this, Mr. Perry, I am not suggesting by any means a
29 wholesale slide. But there are a great many fields
30 that have not been touched yet -- the service industries



1 and so on.

2 In our examination of our tax base, you must
3 realize you do not go just one direction or the other
4 direction. What we are saying is as a basic tentative
5 fiscal policy the competitive position of industry must
6 be realized first. To give preferential treatment, and
7 to rush wholesale into consumer taxation, much as I
8 would like to see a cut in corporate and income taxes,
9 you don't move in that direction; you watch it as a
10 competitive factor.

11 COMMISSIONER PERRY: I am afraid I was preaching
12 to the converted. Some of our witnesses have suggested
13 a complete change over from a direct to an indirect
14 taxation.

15 MR. TWAITS: I am sure you would get a degree
16 of controversy within this delegation, Mr. Perry.

17 COMMISSIONER WALLS: Do you not think that
18 these people who now say we should eliminate the
19 exemptions, would fight the changes as soon as ---

20 MR. TWAITS: I do. But there is in this
21 country of history of subsidization of one area by
22 another; yet, it is a frightening thing to see the
23 narrowing base of taxation. This is most important:
24 How do we get back to widening the base?

25 COMMISSIONER PERRY: Mr. Chairman, I do not
26 think we should leave Part A without paying tribute ---

27 THE CHAIRMAN: I have another question.

28 COMMISSIONER PERRY: I was going to say that
29 this idea is the key to any innovations. I don't know
30 that Mr. Twaits has any ideas or innovations, or they



1 would be announced today. Have you any idea in the
2 field that you think might occur?

3 MR. TWAITS: I don't know, Mr. Perry. The
4 pace at which this is moving today, I am not sure whether
5 we might be selling pots and pans in the future. I
6 don't mean this in a merchandising sense, but this is
7 something that is very important in the Commission's
8 consideration. I don't think the public realizes how
9 fast technology is moving today. Even today we are
10 producing many things which were not known fifteen
11 years ago.

12 COMMISSIONER GRANT: Mr. Chairman, I have one
13 question for Mr. Twaits. When you contemplate capital
14 investment, and you look at your return on your
15 investment after charges and taxation, and as you pointed
16 out, today the industry runs generally somewhere about
17 7, 8 or 9 per cent, which I take you do not consider
18 is too attractive for capital.

19 MR. TWAITS: Well, it is not.

20 COMMISSIONER GRANT: Do you differentiate as
21 between return on equity capital and return on, let us
22 say, fixed capital? In the case of fixed capital,
23 you retire your debt out of what is left, whereas in
24 the case of equity capital you do not.

25 MR. TWAITS: Yes. Mr. Grant, your question
26 brings up something which I think is of very great
27 concern to you, namely, the general lack of understanding
28 of this process of building or creating plant. This is
29 a very long process of studying the market, of assessing
30 your cost structure, your competitive position and



1 everything else. Then you come out and say, if we are
2 competitive, as we believe we are competitive, as we
3 believe we will be, and if the market grows the way we
4 think it will, and if this plant gets up to 75 per cent
5 capacity in six years, then we will make a return on
6 discounted cash flows based roughly at 12 to 14 per cent.
7 This is the intelligentsia's decision; however, the fact
8 remains that after making this kind of decision, taking
9 into consideration technology, market prices and so on,
10 the balance sheet position of most companies is not now
11 more than 7, 8 or 9 per cent.

12 So, what you think you will obtain out of the
13 plant and what you eventually do obtain, are two quite
14 different things. You try to distinguish between those
15 two things.

16 COMMISSIONER GRANT: Am I correct in saying
17 that the return on capital investment might be termed
18 adequate if the investment came from equity financing,
19 but would be inadequate if it came from fixed capital?

20 MR. TWAITS: Unquestionably, you have to take
21 your financial structure into consideration. If it is
22 the type of project where you can put some borrowed money
23 into it at a reasonable rate of interest, the kind of
24 returns I am talking about do not leave you much room
25 for leverage on that point. Then, you do take that
26 matter into consideration.

27 COMMISSIONER GRANT: Because your borrowed
28 money has to be taken out of that?

29 MR. TWAITS: Yes.

30 COMMISSIONER GRANT: Whereas your equity



1 financing is reflected in your share value?

2 MR. TWAITTS: That is correct.

3 COMMISSIONER GRANT: Actually, I am under the
4 impression that most of the petroleum industry does its
5 expansion through internal means, that is, through its
6 own?

7 MR. TWAITTS: No sir.

8 COMMISSIONER GRANT: It does not go to the
9 market very often.

10 MR. TWAITTS: No, perhaps not very often, but
11 we have gone there in massive doses. When I use the
12 term going on the market, I think of selling off
13 International Pete, Royalite, and two or three other
14 things.

15 It is true that we depend to a considerable
16 extent on retained earnings, because when you take a
17 large exploration program, you don't borrow money on
18 dry holes.

19 THE CHAIRMAN: I have one more question on
20 Part A. I notice you made reference to the fact that
21 equities are more expensive in this country than they
22 are in the United States or in the United Kingdom. I
23 was wondering whether that reflects an appreciation or
24 an appraisal of better opportunities in Canada than
25 elsewhere, in an expanding country, or whether there is
26 in that situation any element of favourable taxation.
27 We are interested in taxation, and of course that
28 matter comes to my mind.

29 I would assume that our dividend is a pretty
30 attractive thing to the domestic investor, and I was



1 wondering whether that resulted pushing the price of
2 Canadian equities to a figure above what they are in
3 other countries. To what extent are Canadian equities
4 in the petroleum business more expensive than in the
5 United States or the United Kingdom.

6 MR. TWAITS: This is a hard point to put in
7 complete focus, Mr. Chairman. By and large, our
8 equities in the petroleum business, whether of
9 integrated companies in this country or exploration
10 companies, the independent exploration type of company
11 in Western Canada is much higher than in the United
12 States; in other words, the price/earnings ratio is much
13 higher.

14 We could develop some specific examples of
15 that, if the Commission were interested in them; but I
16 think we can generalize completely on that question.

17 THE CHAIRMAN: What are the reasons for that
18 situation?

19 MR. TWAITS: If we go into the reasons, this
20 is where you get into another factor. First of all,
21 in the earlier part of the play in Western Canada,
22 perhaps one of the reasons was some tendency to be overly
23 optimistic. That always tends to support the market a
24 little bit. Secondly, there is a willingness to take a
25 somewhat lower return in order to overcome a strategic
26 balance. In other words, as an investor you would be
27 willing to take a lower return on a higher prospected
28 risk of looking for oil and gas in Western Canada than
29 in some other less politically stable part of the world.

30 Finally, there is Canadian market for



1 securities itself, which generally shows this phenomenon
2 of higher price/earnings ratio. But I don't think I am
3 competent to say whether it is that reason, or a
4 combination of them.

5 THE CHAIRMAN: The current story is that
6 Canadians are not prepared to take on risky investment.
7 Why then should Canadians pay more for their securities?
8 It does not seem consistent.

9 MR. TWAITTS: Our returns are higher too. You
10 might ask why anybody would buy a share of stock that
11 yields 3 per cent when they can invest in a mortgage at
12 $7\frac{1}{2}$ per cent.

13 THE CHAIRMAN: I can see reasons for doing that.

14 MR. TWAITTS: Yes, there are reasons.

15 THE CHAIRMAN: But I find it difficult to
16 understand why a Canadian petroleum company's shares
17 as a general class would sell at higher prices than
18 would petroleum shares in the United States.

19 MR. TWAITTS: I think it is true, but I cannot
20 give you good reasons for it. I have given one or two
21 possible reasons.

22 THE CHAIRMAN: The investors are perfectly
23 free to move across the border, and they do.

24 COMMISSIONER GRANT: The shares are discounted
25 in the future more in Canada than in the United States.
26 The potential growth is a great factor in determining
27 the price of our stocks.

28 MR. TWAITTS: The future appreciation is, I
29 think, probably a factor.

30 THE CHAIRMAN: In any event, they are rated



1 higher by the investing world.

2 Why do you suggest that Canada should aim at
3 being a tax haven? I had heard that suggested by
4 professional people like myself who would make a rather
5 good thing out of a tax haven, but I am curious to know
6 why you believe it would be useful.

7 MR. TWAITTS: Mr. Chairman, this is perhaps an
8 unfortunate term. It sounds like a slogan of some kind.
9 I think the term "tax haven" is entirely consistent with
10 our approach to the fact that we have to take an
11 unusual tax view, and not necessarily a traditional
12 course of action that I gather would be appropriate to
13 the United States economy or the United Kingdom economy.
14 In other words, we are seeking to attract industry or
15 other forms of endeavour.

16 This comes down to what is our biggest problem
17 of all: what is an economic growth rate. I think that
18 in the sense in which we use the expression "tax haven",
19 is because Canada is in an unusual situation, and that
20 there are gains to be made by making it specifically
21 attractive to industry to located here. To offset some
22 of the profits, you can carry this into a discussion of
23 reserve taxation; you can carry it into the question of
24 competition as between certain industries. Every
25 industry is in a different position; this is not a
26 matter of getting a flat generalization. The problem
27 in our industry is completely different from that of the
28 electrical industry, or for that matter in the paper
29 industry.

30 THE CHAIRMAN: I think your use of the term



1 indicates that it was your conviction that tax rates
2 in Canada should be lower in order to attract industry to
3 Canada.

4 MR. TWAIT: I think that is a fair way of
5 stating it. It really comes down to the fact that if
6 you are going to have a sophisticated work force, and
7 you are going to employ people, you have to give them
8 the proper tools to work with. That in turn depends on
9 massive, and increasingly massive investment.

10 THE CHAIRMAN: Mr. Stewart, have you any
11 questions you would like to ask with regard to Section A?

12 MR. STEWART: No, Mr. Chairman.

13 THE CHAIRMAN: Would you like to move on then
14 to Section B? We will move to Section B.

15 MR. STEWART: Gentlemen, my questions are
16 going to relate to comparatively mundane matters of tax
17 structure. I would like to start with page B-5, where
18 you begin to discuss exploration and acquisition costs.

19 I was a little surprised to see that at the
20 beginning of that section you appear to imply that there
21 are problems under Section 83A, as to the definition of
22 drilling and exploration expenses. You specifically
23 mention, under paragraph 12 the question of capital cost
24 allowance may possibly constitute drilling and
25 exploration expenses to some extent.

26 I have before me a pamphlet which I imagine
27 you are familiar with. It was published earlier this
28 year by the Canadian Tax Foundation, under the name of
29 "Oil and Gas Production and Taxes". I will have occasion
30 to refer to this pamphlet from time to time this morning.



1 As you may recall, this pamphlet includes a number of
2 articles by a number of different people, and in each
3 case I suppose the article represents the personal view
4 of the author.

5 The second paragraph at page 170 of the
6 pamphlet contains this statement:

7 "At the present time there is
8 little variance between the
9 departmental view of the legislation
10 and that of industry accounting
11 practice as to what costs are
12 properly to be included in drilling
13 and exploration expenses".

14 I do not think I need read the balance of
15 that paragraph -- I see you have a copy of the pamphlet
16 with you. The pamphlet then goes on discuss some of
17 the items which are included in the allowance.

18 Then, as you are also aware, when we look at
19 the income tax regulations, and when for depletion
20 purposes we are determining production profits, it appears
21 -- and I am looking now at Section 1201(4)(b) and (c) --
22 that section 83A, deductions, and capital cost allowances
23 are obviously distinguished.

24 Now, is there any real problem of the sort
25 you refer to in paragraphs 11 and 12, either with regard
26 to capital cost allowance or with regard to the
27 definition of drilling and exploratory expenses
28 generally?

29 MR. EWENS: I don't think we have had any
30 serious problem with the National Revenue in this area.



1 We have used this as a basis of explaining doubt, if you
2 like, as to the Income Tax Act's use of the term
3 "drilling and exploration expenses".

4 As you know, most of the deductions in the
5 Income Tax Act are on what we refer to as the prime
6 cost deductions -- salaries, wages and things like that.
7 The Income Tax Act in talking about drilling and
8 exploration expenses does not point out clearly how one
9 is to determine drilling and exploration expenses --
10 whether it is to be on a pure book expense, or on a
11 taxation concept.

12 I think there has been an agreement between
13 industry and the department on how to do this, but it
14 is an area of uncertainty and doubt.

15 MR. STEWART: By the same token, when we come
16 to paragraph 13 you refer to acquisition costs. I take
17 it that the 1962 amendments have eliminated those
18 problems at least as regards future acquisitions; and
19 while any uncertainty that exists or is existing, may
20 remain as regards pre-1962 acquisitions, this is not a
21 continuing problem as regards future acquisitions.

22 MR. EWENS: That generally is true; however,
23 you will notice from Exhibit A of the brief we have
24 expressed some concern about the affect of the 1962
25 income tax amendments.

26 MR. STEWART: I would like you to pass to
27 Exhibit A now, and refer briefly to the specific points
28 you have mentioned. That exhibit relates to paragraph
29 15 on page B-6. I have skipped over paragraph 14,
30 which has to do with depletion but we will come back to



1 depletion later on.

2 Looking at Exhibit A, the first point that was
3 raised in the letter set out in that exhibit has to do
4 with acquisition costs under subsection 5(a) of section
5 83A. That subsection seems to be worded in a very
6 restrictive fashion, and I have two questions with
7 regard to it.

8 First, can you give us any indication as to
9 why the wording should be so restrictive and, as a
10 supplement to that particular question, have you been
11 able to develop, or do you think you could develop,
12 something which would be simpler? The second question
13 is, has the different wording as it now stands led to
14 what you might consider a conveyancing problem with the
15 industry, when the industry is dealing with the
16 acquisition or disposition of petroleum properties?

17 MR. EWENS: In answer to your first question,
18 I think we would say that we do not know why this was
19 given such a narrow definition. Our point here is that
20 the new provisions indicated that you provided only for
21 petroleum and natural gas rights. As a matter of
22 practice in the industry, it is necessary to obtain
23 certain other rights, because normally when you produce
24 oil and gas you may produce other things like sulphur
25 and water along with the gas.

26 MR. STEWART: This is the point you make.

27 MR. EWENS: Yes.

28 MR. STEWART: I suppose Mr. Barrett is the
29 person to whom my second question should be directed.

30 MR. BARRETT: This has raised a problem, Mr.



1 Stewart, but it has not been in effect long effect for
2 us to feel that we really can say what the problems
3 are, even more, what the solution is. We have, for
4 instance, talked about having two companies acquire or
5 sell developed properties, rather than one company, in
6 order to try and isolate the oil and gas rights and make
7 sure that the contract or arrangement did not include
8 more than what is permitted by Section 83(5)(a).

9 MR. STEWART: To have two companies sell or two
10 companies acquire?

11 MR. BARRETT: Either or both.

12 MR. STEWART: Coming to your second point,
13 which relates to subsection 5(b), you raise the question
14 of why it is than when a vendor is selling properties
15 which were acquired before April 1962 he is not
16 permitted to deduct for tax purposes from the proceeds
17 of sale his acquisition costs of particular properties.
18 Could I ask if you have been able to obtain or
19 develop any explanation as to why that deduction was not
20 permitted.

21 MR. EWENS: No, we have not.

22 MR. STEWART: Did you think it could be that
23 the vendor might have been able to recover part of his
24 costs through depletion, for example.

25 MR. BARRETT: It applies to unproductive costs
26 as well as productive.

27 MR. STEWART: Quite so.

28 MR. BARRETT: I don't think that would have
29 been a problem.

30 MR. STEWART: Would there be no problem in



1 practice in determining accurately what the costs on a
2 particular property were?

3 MR. EWENS: No, I don't believe so.

4 MR. STEWART: Then, going on to point 3, which
5 relates to subsection 5(e) of section 83A, you are
6 concerned with the basic question of recapture of
7 depreciation. Are you really concerned that there might
8 be in effect double taxation, that is, recapture of
9 depreciation under other provisions of the Act and also
10 recapture under sub-paragraph 5(e)?

11 MR. BARRETT: I think again the answer is
12 that we have not had enough experience. We point out
13 the danger that appears possible under the present
14 language.

15 MR. STEWART: In any event, you have not had
16 it suggested to you that the tax authorities would
17 consider or would try to get you both ways.

18 MR. BARRETT: Not yet.

19 MR. STEWART: Point 4 in your letter deals
20 with depletion and with the effect taxwise of selling
21 on the basis that the proceeds must be brought in to
22 income. You suggest in the first part of that paragraph
23 that when you buy properties on a tax deductible basis
24 under the new legislation the deduction is in effect at
25 the 33¹/₃%. I would like to put this thought to
26 you: Does that not depend on the general circumstances
27 of the acquiring company? In other words, what is the
28 acquisition cost being set off against? If the
29 company is a producing company with no sources of income,
30 but is in a tax position, I take it the 33¹/₃% applies.



1 Suppose the company has no production income but has
2 income of another type, then would it not be the fact
3 that the acquisition costs would be set off against
4 income which would otherwise be taxed at the full rate
5 rather than the 33 1/3 rate?

6 MR. EWENS: That would be correct if the
7 company concerned had no producing income but did have
8 another source.

9 MR. STEWART: Would it not be difficult in the
10 circumstances to do more than is being done now, that is,
11 permit the deductions at whatever the rate turned out
12 to be, and provide that the proceeds of disposition must
13 be brought into income, recognizing that the effective
14 rate of any tax must vary or may vary from taxpayer to
15 taxpayer?

16 MR. EWENS: I think we have felt that the
17 equitable thing to have done would have been to have
18 required that the deduction of these costs be taken into
19 consideration in calculation of depletion, and also the
20 proceeds of sale from these costs likewise should be
21 taken into consideration in the calculation.

22 MR. STEWART: In this regard I would like to
23 discuss with you for a minute the last sentence of your
24 paragraph 4. You seem to suggest these two alternatives:
25 first, that section 6 should be amended to provide that
26 proceeds of disposition will be treated as production
27 properties in effect, or, on the other hand, that the
28 regulation should be amended to provide that you can
29 take depletion on the proceeds of disposition.

30 Let me get your reaction to this. If you sell



1 one of these properties, are the proceeds of the sale
2 properly to be regarded as production profits? Looking
3 at it from the other point of view: The purchaser will
4 be acquiring these properties presumably because there
5 are reserves or it is anticipated there will be reserves,
6 and he expects to take depletion on whatever production
7 is in fact obtained from the particular properties. Is
8 your suggestion open to the difficulty that both
9 vendor and purchaser would be taking depletion on the
10 same production?

11 MR. EWENS: No, I do not think so, because
12 the vendor would be offsetting his sale proceeds, if
13 you like, against his costs. As an illustration, Mr.
14 Stewart: If a taxpayer purchases a lease for \$100.00,
15 and for any reason wanted to sell it next week for
16 \$100.00, he would find that his after-tax cost was
17 \$67.00, whereas his after-tax proceeds would be only
18 \$50.00, and he would be out of pocket because of the
19 tax rules on a straight purchase and sale on the same
20 day.

21 MR. STEWART: Again, you are talking about a
22 purchaser who is entitled to depletion.

23 MR. EWENS: That is right.

24 MR. STEWART: It may be that the problem here
25 is that some purchasers are entitled to it and some are
26 not. I am not sure just how you can frame a general
27 rule for tax legislation which will take all these
28 possibilities into account. But dealing with your simple
29 case again, if the purchaser has held the property for
30 some time and he has been fortunate enough to recover



1 \$300.00 of production from the particular lease -- so he
2 has recovered his costs -- if he is then able to sell for
3 the \$100.00, granted, he brings that into income, but
4 the purchaser who has a cost -- that is the second
5 purchaser -- of \$100.00 will be entitled to recover that
6 through depletion. It seems to me obvious if you have
7 a whole series of transactions relating to that
8 particular property, you cannot have a number of people
9 taking depletion on the same property at the same time.

10 MR. EWENS: Except, Mr. Stewart, that each new
11 purchaser has to charge his cost against his depletion.

12 MR. STEWART: Quite so.

13 MR. TWAITTS: May I make an observation without
14 getting into the technicalities of the argument?

15 MR. STEWART: Please do.

16 MR. TWAITTS: I wonder if it is generally
17 realized that these given transactions are not in many
18 cases prompted by the normal commercial situations.
19 Quite often there is behind the disposition of a
20 property, or a relative amount, a factor in the unitization
21 and in the development of a field, or something of that
22 nature. I think some of these things are a little more
23 common than just a company move or something like that.

24 MR. STEWART: I quite agree, and I think that
25 the form of Section 83A is obviously a problem to them
26 at the moment. In the book I am looking at the text
27 of that section runs to some eighteen pages. I do not
28 suppose that in the official statute it would run quite
29 to that length, because this particular copy contains
30 the reference to the amendments that have been made.



1 But, admittedly, we are dealing with a very difficult
2 and complex question, and, as you indicate in your
3 brief, we are faced with the problem of rules with
4 respect to exploration and drilling expenses which have
5 changed very materially over the years; further, the
6 statute attempts now to deal with expenditures which were
7 made at different periods of time when the rules were in
8 the process of development.

9 I should like to ask two questions in this
10 connection. In the first place, when an industry such
11 as yours is faced with a complex piece of legislation
12 of this character, would you consider it to be helpful
13 if the Department which enforces the legislation were
14 to issue an interpretative memorandum of the rules
15 indicating how they propose to apply the legislation.

16 MR. BARRETT: I presume those rules would, as
17 usual, have no binding effect on anybody.

18 MR. STEWART: That is another question, Mr.
19 Barrett, but they would be a little more formal than
20 anything we have had up to now. They would, if you like,
21 be an expression of a general policy of the department
22 in its interpretation and enforcement of a particular
23 section. I don't suppose for one moment they would have
24 any binding effect on the courts, but I am wondering
25 whether in a case of this kind some of the questions
26 that you have raised in the earlier portion of Part B,
27 which we have been discussing up to now, and some of
28 the questions that you raise in this letter Exhibit A,
29 might not have been disposed of to the reasonable
30 satisfaction of the industry in a memorandum on the



1 rules.

2 MR. HAMILTON: I think that is probably correct,
3 Mr. Stewart; it would be helpful.

4 MR. BARRETT: May I speak about the other side
5 of the coin. You have already pointed out the
6 complexity of Section 83A, and the depletion regulations
7 which are also becoming pretty complicated; added to
8 that, indications of intention from government, which
9 will in time become lengthy and complicated, and yet at
10 the same time will not be binding on the courts may not
11 be the best way of trying to maintain a system of
12 collection and administration of tax.

13 MR. STEWART: I am interested in that
14 reaction, because if anything of the sort were being
15 considered the reaction of industry as such to that idea
16 should be known.

17 May I ask this question with regard to Section
18 83A, with which I am sure you are extremely familiar:
19 Do you think that the whole question of exploration and
20 drilling expenses could be dealt with in a much more
21 simple way than it is now dealt with?

22 MR. BARRETT: I feel that with regard to the
23 timing divisions which you have pointed out, surely we
24 are ingenious enough to collapse this section more than
25 we have.

26 THE CHAIRMAN: Which provisions?

27 MR. BARRETT: The timing provisions in Section
28 83A, where they take a period of the year and treat each
29 period separately.

30 MR. STEWART: Does that mean you would prefer



1 a section which deals specifically with the current
2 position, and then have a separate section, either of
3 the same statute of an earlier statute, which would deal
4 with expenditures occurring in prior periods?

5 MR. BARRETT: To a certain extent -- to the
6 extent that it is necessary to preserve the preferred
7 treatment.

8 MR. STEWART: I would like now to come to the
9 general effect of this allowance of exploration and
10 drilling expenses as it exists today.

11 THE CHAIRMAN: Mr. Stewart, when you get to a
12 good point, we will take a recess.

13 MR. STEWART: Thank you, Mr. Chairman. We
14 could take a break now.

15 THE CHAIRMAN: We will take a 5 minute recess.
16 ---A short recess.

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1 MR. STEWART: Yes, Mr. Twaits.

2 MR. TWAITS: Perhaps we could return for a
3 moment to your final question on Section 23A, including
4 the question as to the interpretation memorandum, for
5 some explanation of the provisions. Mr. Barrett has
6 expressed our concern that this is not binding and
7 in effect might lead to even greater difficulties down
8 the road. There is one observation to make in this
9 regard. We feel strongly thatuprior consultation will
10 eliminate much of this.

11 MR. STEWART: When you say "prior consultation",
12 you mean consultation before changes are introduced into
13 legislation?

14 MR. TWAITS: Yes. We have a great body of
15 experience in the industry which will eliminate a great
16 deal of trouble.

17 MR. STEWART: We will come back to that when
18 we get to the subsequent portion of your brief.

19 On the general question of exploration and
20 drilling expenses, I refer to page 196 of the pamphlet
21 we were talking about. At the top of that page, I think
22 they are dealing with the position as it existed prior
23 to the 1962 amendments. As I read the first half of
24 the page there, what they are saying in effect is that
25 the industry was able to recover as drilling and
26 exploration expenses its applicable costs except for
27 four basic types of cost, which are listed. The first
28 is rental payments in excess of \$1.00 per year. The
29 second is bonus payments, with the usual exception.
30 The third is amounts paid for producing properties. The



1 fourth is expenditures of certain types incurred outside
2 Canada.

3 Would I be correct in saying that as far as
4 the first three of those four exceptions are concerned,
5 as regards expenditures incurred after the 1962
6 amendment came into effect, the deduction is now available.

7 MR. TWAITS: Yes.

8 MR. STEWART: You concur in that. I observe
9 in passing that at the top of page 273 of the pamphlet
10 the statement is made that as a result of the 1962
11 amendments permitting the deduction of virtually all
12 future acquisition costs -- I do not want to read further
13 than that, because I am not asking you to agree with
14 what follows; but the implication is clear there that,
15 under present rules, those which were introduced in 1962,
16 you are allowed to deduct, under Section 83A, virtually
17 all your future property acquisition costs.

18 I would like to put this to you by way of
19 summary of the position under Section 83A. I emphasize
20 that I am concerned now with the post 1962 expenditures
21 and I am concerned with expenditures in Canada.

22 Would it be fair to say this, that all your
23 exploration and drilling expenses and your acquisition
24 costs are deductible. That is correct?

25 MR. BARRETT: Yes.

26 MR. STEWART: This is perhaps a digression, but
27 is it also a fair comment that we are now proceeding
28 under Section 83A on the general basis that expenses of
29 the nature dealt with in that section relate to the acq-
30 uisition of inventory rather than the acquisition of



1 capital assets -- in other words, that property
2 acquisitions are treated as the acquisition of inventory
3 for tax purposes.

4 MR. EWENS: Now, they are.

5 MR. STEWART: They are now. Is it also the
6 case, as I understand it, that a deduction under Section
7 83A is to be taken immediately that offsetting income
8 is available?

9 MR. TWAITTS: Yes.

10 MR. STEWART: Is it also the case that,
11 subject to that point I have just made, the deduction can
12 be carried forward indefinitely?

13 MR. TWAITTS: Yes.

14 MR. STEWART: Does it follow that there is no
15 tax payable on production income until this Section 83
16 cost has been absorbed?

17 MR. TWAITTS: Yes.

18 MR. STEWART: Then I would like to put this
19 to you for comment. This deduction under Section 83A
20 can be considered to serve the original purpose, or one
21 of the original purposes, of a depletion allowance, the
22 purpose I have in mind being the recovery of capital
23 investment over the period of the useful life of the
24 asset.

25 MR. EWENS: I think we in our company would
26 deny that the purpose of depletion is to cover cost.
27 In our opinion, depletion is primarily an incentive
28 measure, that is, to give a reward to the person taking
29 the risk.

30 We would only be prepared to look upon



1 depletion as related in any way to cost if we went back
2 to the original basis in the United States where
3 corporations were entitled to calculate the discovery
4 value of an oil or gas field and they were allowed to
5 amortize it.

6 MR. STEWART: That was not, I think, the
7 original basis in the United States, but it was an early
8 basis.

9 MR. EWENS: Yes.

10 MR. STEWART: In any event, I take it you
11 would subscribe to the proposition that industry should
12 be entitled to recover its capital loss over the period
13 of the useful life of the asset?

14 MR. EWENES: Generally, yes.

15 MR. TWAITTS: That, I think, is a very difficult
16 question. I am sure you had a purpose in phrasing it in
17 that way. Let us not forget that we are not talking
18 about a plant or a piece of physical equipment here.
19 We are talking here of acquisition of some people who are
20 successful and some people who are not successful. We
21 are talking about the right to produce. We are not
22 talking about taking a piece of physical or saleable
23 plant. Therefore, the term "recovery of capital" is not
24 in my judgment a realistic term. Depletion, as Mr.
25 Ewens has expressed it, is more an incentive system
26 built into the total price structure.

27 THE CHAIRMAN: I am at a loss here. From the
28 remarks from the front it would seem to me that Section
29 83A items are moneys spent by the taxpayer and Section
30 83A gives a right to recover moneys spent -- one calls



1 them moneys, but I do not think it makes any difference
2 -- and accepting Mr. Ewens statement that depletion
3 has nothing to do with recovery, it is a matter of
4 incentive. I think I can understand that pretty
5 clearly, that it is not a matter of measurement of
6 income. It is a matter of incentive that comes off
7 measurement of income. I think I have probably
8 looked on that in my own mind as a reduction in the
9 rate of tax, because I think it virtually has that effect,
10 a 33 1/3 per cent rate instead of a 50 per cent rate.
11 Are we in tune on that point?

12 MR. STEWART: I do not think it is necessary for
13 my purposes at the moment to attempt to agree on what
14 the purpose of depletion is. Probably my basic point
15 has already been agreed by Mr. Ewens, namely, that is
16 possible now under Section 83A -- and again I relate
17 this to post-1962 expenditures -- to recover all
18 exploration and drilling and acquisition costs. I see
19 that Mr. Ewens is nodding his head again.

20 MR. EWENS: Yes.

21 THE CHAIRMAN: Before going on, I would like to
22 ask Mr. Ewens to evaluate this specific exploration and
23 drilling allowance in comparison to the American
24 treatment. I might say at the outset that my own
25 impression was that this is a little more generous than
26 the American treatment.

27 MR. STEWART: I was about to put to Mr.
28 Ewens three propositions on that subject and I think
29 these will supplement your question, Mr. Commissioner
30 Perry.



1 I would like to ask whether the Canadian
2 allowance under Section 83A is more favourable than the
3 corresponding American allowance in these three respects.

4 First of all -- and I should emphasize that I
5 do not profess to be really familiar with the American
6 legislation and I am just asking for general comments
7 on this -- does the American legislation not require that
8 the expense relating to producing properties should be
9 capitalized?

10 No. 2, does the United States not treat
11 expenditures on non-productive properties as a current
12 expense which might produce losses for tax purposes, so
13 that those expenses -- if they do produce losses -- can
14 be recovered simply over the loss carry over period,
15 whereas under Section 83A they can be carried forward
16 indefinitely?

17 The third point, which perhaps does not relate
18 expressly or solely to Section 83A but which is a
19 related point, is this. Is there anything in the
20 United States law which corresponds shareholder
21 depletion which is provided for under our regulations?

22 MR. EWENS: In answer to your first question,
23 I would say yes, the costs of acquiring productive
24 property are capitalized.

25 As to the second question, the non-productive
26 properties are current industries. Our information from
27 a practical point of view is that in the United States
28 approximately 95 per cent of acquisition costs are
29 recovered in less than a five year period, so we feel
30 they are not really all that different from the Canadian



1 approach.

2 MR. STEWART: That is in the industry as a whole.

3 MR. EWENS: On the third question, there is
4 nothing comparable to shareholder depletion.

5 MR. STEWART: Now, considering the present
6 treatment of exploration and drilling expense and
7 alternatives to it, one alternative I suppose would be
8 to treat these costs -- and I include here acquisition
9 costs -- as though the assets in question were
10 depreciable assets entitled to capital cost allowance on
11 some basis to be determined. Would you comment as to
12 the feasibility and desirability of that particular
13 alternative?

14 MR. EWENS: I suppose today you could say they
15 are on a capital cost allowance basis. It is a matter
16 of timing. In the deductible value 100 per cent rate
17 is there. If we can assume they should be deductible
18 on some period of time, I think it boils down to a
19 question of the timing feature.

20 MR. STEWART: I assume that you would prefer
21 that the 100 per cent rate apply, and that you be
22 permitted to take them as rapidly as possible.

23 MR. EWENS: Yes.

24 MR. STEWART: Similarly, another alternative
25 would be to permit the amortization of these costs,
26 which would mean that the appropriate portion of the
27 cost would be treated as a current expense, regardless
28 of the income position; and that any losses would have
29 to be recovered over the loss carried forward position.

30 If in the United States 95 per cent of the costs



1 are recovered in that particular way, or during that
2 particular period, would you anticipate that substantially
3 the same result would follow in Canada?

4 MR. EWENS: It might. Of course, if you are
5 going to have to recover cost in a five year period, you
6 are going to have to do as in the United States,
7 abandon properties a little faster than otherwise. If
8 you ask that your drilling and exploration costs be
9 recovered within a five year period, I think you would
10 be not denying the deduction of costs. In our industry
11 you face a heavy committment of capital and frequently
12 it is not recovered as quickly as expected, quickly
13 enough to permit the recovery of these costs within the
14 five year period.

15 MR. STEWART: So you would not welcome that
16 particular alternative?

17 MR. EWENS: No.

18 MR. TWAITS: The position is changing all the
19 time. You do not know how much oil is in it or how
20 much it will reasonably produce over a long period.

21 MR. STEWART: I was interested in the statement
22 that in the United States 95 per cent of these costs
23 is in fact recoverable. Of course, I realize that the
24 positions are not entirely similar.

25 MR. TWAITS: Yes.

26 THE CHAIRMAN: I would have thought Mr. Ewens
27 reply might have been that it would tend to slow up the
28 abandonment of the properties rather than accelerate it.
29 If one wishes to make sure of the recovery of these
30 costs, some will have to be dropped within the five year



1 limitation and if they are written off faster there is
2 the danger that one would run out in the five years
3 before recovery.

4 MR. EWENS: If you were faced with the five
5 year limitation, I think what you are saying is true.
6 Starting an exploration program today you might not
7 recover enough sources of revenue to include recovering
8 these costs within the five year period. I think this
9 is what the industry would like to retain on the basis
10 of deductibility today.

11 MR. TWAITTS: Of course I hope you are making
12 this on the assumption that you have the right to
13 produce as you like, because generally speaking this is
14 the control of the industry.

15 MR. STEWART: Could I ask a general question
16 with regard to industry accounting practice? As a
17 matter of fact, all corporate accounting generally in
18 the industry in Canada -- are exploration and drilling
19 expenses and these acquisition costs which are now
20 deductible under Section 83A, treated as an expense item?

21 MR. EWENS: This varies between different
22 elements within the industry, Mr. Stewart. I think the
23 other companies follow generally the practice of our
24 company, which is to charge exploration and dryhole
25 costs to capital productive oil costs.

26 MR. STEWART: Now if I could come to the
27 subject of depletion, which we will deal with, starting
28 on page B7 of your brief. As I understand it, you have
29 two basic criticisms of the present depletion allowance
30 in Canada. The first is that depletion is determined



1 as an overall basis rather than on a well to well basis.
2 The second is that in the computation of production
3 income for the purpose of the allowance you must deduct
4 these exploration and drilling expenses. Those are
5 your two basic criticisms.

6 MR. EWENS: That is right.

7 MR. STEWART: Dealing with the second one for
8 the moment, with the obligation to deduct exploration and
9 drilling expenses and acquisition costs, you make the
10 point in paragraph 28 that these may defer exploration,
11 that continued expenditure of an exploration nature may
12 result in recovery of depletion being deferred. Is it
13 also not possible that in certain circumstances at any
14 rate the narrowing of the basis in that particular way
15 means that some depletion will never be recovered.

16 MR. TWAITTS: That is correct.

17 MR. STEWART: Then I take it that depends or
18 may depend on the corporate structure and on the question
19 whether the company concerned has other than production
20 income. If you had a company which had no production
21 income but did have other income and also had
22 exploration expenditure, then presumably you recover
23 your exploration and drilling expenditures without loss
24 of depletion.

25 MR. EWENS: Under that situation there would
26 be no purchasing income and therefore no depletion, but
27 the moment the company did acquire productive revenues
28 it would start the depletion.

29 MR. STEWART: Under the 1962 changes, it is also
30 the case that if you acquire additional petroleum



1 properties, depletion may again be deferred or lost. That
2 is correct?

3 MR. TWAITTS: Yes.

4 MR. STEWART: I think you make the point else-
5 where in your brief that that particular 1962 change may
6 discourage exploration since a person who purchases proven
7 or semi-proven acreage will get the same tax deduction as
8 the person who purchases exploration acreage or engages
9 in exploration?

10 MR. EWENS: Yes, we made that statement.

11 MR. STEWART: Looking at paragraph 28 on page
12 B11, you have a table there which relates to the effect
13 of exploration on taxable income and you show that a
14 company which does not explore ends up in those
15 particular circumstances with a higher taxable income
16 than one which does explore. Dealing with the figures
17 as they are there, the exploring company has received a
18 less depletion than the non-exploring company. Is that
19 correct?

20 MR. TWAITTS: Agreed.

21 MR. STEWART: Let us carry this example one or
22 two steps further. Let us assume that both these
23 companies are taxable at the 50 per cent rate. The
24 non-exploring company would pay tax, as I calculate it,
25 in the amount of \$33.34. The exploring company would
26 pay tax of \$16.67. Therefore the first company would
27 have a cash flow of \$66.66, being the whole of its
28 production income, less 33/34 of tax. As far as the
29 exploring company is concerned the amount of the cash
30 flow will depend on what you take in. If we exclude the



1 exploration expense from the computation, its cash flow
2 would be only 33/33, which is materially less. I take
3 it that it is a fact that the exploring company has had
4 the benefit of \$50.00 expenditure on exploration and that
5 it has chosen to make that particular expenditure
6 deliberately and in the hope that the return on the
7 expenditure will justify the expenditure.

8 MR. TWAITTS: This obviously is a business
9 decision here. On the other hand might I point out to
10 you, Mr. Stewart, that by your own figures the exploration
11 expenditure has cost to you 67 cents on the dollar and
12 that depletion expenses is supposed to give an incentive.

13 MR. STEWART: I suggest to you that to some
14 extent this is an inflated one, to make the \$50.00
15 expenditure.

16 MR. TWAITTS: It is an inflated one but one of
17 some importance to the country.

18 MR. STEWART: In paragraph 33 you advocate a
19 system of depletion based on a percentage of growth
20 production revenue and you indicate in paragraph 34 that
21 your proposed system is somewhat similar to that in the
22 United States.

23 You also indicate in paragraph 33 that one of
24 the changes under your proposal would be that depletion
25 would be allowed on a well by well basis.

26 I just observe in passing that we have already
27 found that the American system of exploration and drilling
28 expenses differs from the Canadian treatment in a number
29 of respects, including the fact that in the United States
30 you have to capitalize the expenditures relating to



1 productive wells, with the result that your annual
2 method of recovering that particular expense is from
3 depletion.

4 Now we come to rates. I wonder if we could
5 determine generally what the American rates are, what
6 the American system is. I would like to indicate my
7 understanding of this, so that you can correct me if I
8 am wrong.

9 As I understand the American depletion rules,
10 you take this on a well by well basis and you are entitled
11 to 27½ per cent on growth income with a limit of 50 per
12 cent of the taxable income from the property -- subject
13 to this, that if cost depletion on a unit of production
14 basis exceeds the depletion calculated in the first way,
15 then you take cost depletion. Is that a fair statement
16 of the American system?

17 MR. EWENS: Yes, it is, except for your opening
18 comment, that it is on a well by well basis. I believe
19 it is on a property by property basis.

20 MR. STEWART: I beg your pardon -- property by
21 property basis, yes.

22 Then, in your suggestion which is set out
23 specifically in paragraph 38 you suggest 25 per cent of
24 growth producing revenues, with this clarification or
25 limitation, that the growth basis depletion allowance
26 would not, in any taxation year, exceed total producing
27 profits computed after deduction of Section 83A
28 expenses.

29 I would like to discuss that with you a little
30 bit. When you take 25 per cent of growth producing



1 revenues, is that on a well by well basis or on a property
2 by property basis?

3 MR. EWENS: We have just said that on a simple
4 approach, you would take the thing by the total of all
5 your producing revenues and 25 per cent of the result
6 would be depletion allowance.

7 MR. STEWART: Then, when you come to your
8 limitation, the limitation of total producing profits,
9 does that relate to all your experience or is that on a
10 property by property basis?

11 MR. EWENS: No, that would be the total.

12 MR. STEWART: Would that mean that your
13 definition of producing profit, which you say is
14 computed after deduction of Section 83A expenses, would be
15 somewhat similar to the definition of production income
16 which is now contained in our regulations?

17 MR. EWENS: Yes, I think that is a fair
18 statement.

19 MR. STEWART: Then, does this mean that you
20 would get, under your proposal, the lower of the two --
21 that is, if 25 per cent of growth revenue were less than
22 production profits, you would get the percentage of
23 growth revenue. On the other hand, if 25 per cent of
24 the growth revenue exceeded your production profits, you
25 would get the production profit?

26 MR. EWENS: That is right. - You would not be a
27 business loss.

28 MR. STEWART: In the United States the growth
29 income figure is 27½ per cent, which is a little higher
30 than your figure of 25 per cent, but the present



1 limitation in the United States is 50 per cent of the
2 taxable income from -- I suppose it is the particular
3 property?

4 MR. EWENS: That is right.

5 MR. STEWART: Whereas, you are suggesting that
6 it should be 100 per cent of total producing profits?

7 MR. EWENS: That is right.

8 MR. STEWART: And you think that your proposal
9 would come, on balance, work out to substantially the
10 same overall result as the present American rules?

11 MR. EWENS: We believe very roughly so, Mr.
12 Stewart. Our experience has indicated that in the United
13 States the 27½ per cent on growth works out actually at
14 something approaching 25 per cent.

15 MR. TWAIT: Our views in this regard, Mr.
16 Stewart, evolved over a long period of time. I think
17 one important factor in consideration here is to
18 eliminate the administrative headache, in the property
19 or loss treatment in the United States.

20 MR. STEWART: That is why you suggest the over-
21 all computation, as opposed to property?

22 MR. TWAIT: Yes, and we think this is roughly
23 competitive.

24 MR. STEWART: I appreciated that you considered
25 that, because you expressly say that your 25 per cent will
26 work out obviously very similar to the 27½ per cent.
27 I was not sure that you felt that your limitation would
28 work out in approximately the same way as the present
29 American limitation.

30 MR. EWENS: This would not give the Canadian



1 industry the benefit of the allowance as in the United
2 States, because they can actually create business losses
3 in the year. Here we are proposing that you should not
4 be able to do that.

5 MR. STEWART: Coming up to the 25 per cent, you
6 say in paragraph 33 it would in the case of most tax-
7 payers be equivalent roughly to 33 1/3 per cent of
8 production income. Would it be correct to say that
9 33 1/3 per cent of net income equals 25 per cent of
10 gross, if 25 per cent of gross income is spent on
11 exploration and drilling and acquisition items?

12 MR. EWENS: This was our basic assumption.
13 Obviously it varies with every corporation. We made
14 the basic assumption that on average a producing company
15 might spend something like 25 per cent of its gross
16 income on development or operating expenditures. On this
17 assumption, 25 per cent of gross would be roughly
18 equivalent to 33 1/3 per cent of net income before
19 deduction of exploration items.

20 MR. STEWART: Then would it follow that if the
21 proportion of gross spent on this particular type of
22 thing exceeds 25 per cent, your basis then would be
23 more helpful to the particular company than the present
24 basis?

25 MR. EWENS: Yes.

26 MR. STEWART: Then of course you impose this
27 limitation of 100 per cent.

28 MR. EWENS: Yes, 100 per cent producing profits.

29 MR. STEWART: I think that if we look at this
30 pamphlet again at page 271 there is a chart, chart 4,



1 which would seem to indicate that 25 per cent of the
2 gross, subject to that limitation, is more favourable than
3 the present allowances if the percentage of the gross
4 which is spent on section 83A items runs from 25 per cent
5 to 75 per cent. Is that your understanding?

6 MR. EWENS: That is correct.

7 MR. STEWART: Therefore, if this change that
8 you suggest were made, there would be an incentive to
9 companies to expend between 25 per cent and 75 per cent
10 of current production income on Section 83A expenditures.

11 MR. EWENS: That is right.

12 MR. STEWART: Now, would you comment on this,
13 which I find difficult to work through in my own mind.
14 What effect does this have on a company which has a
15 large backlog of exploration and drilling expenditures,
16 Section 83A expenditures, which will take it in the
17 ordinary course several years to work off for tax
18 purposes?

19 What I am asking in substance is, I think, this.
20 Is that company affected by the change more than a
21 company which starts off in what one might call a current
22 position, that is, a company which has no backlog of
23 Section 83A expenditures?

24 MR. EWENS: The company you are referring to
25 would be in no worse a position than it is in today.
26 It would retain the position it has now in connection
27 with drilling and exploration expenditures and the
28 right to carry these forward until it has sufficient
29 income to offset them; but it would realize that, as it
30 acquired producing revenues and became successful, it



1 would qualify for the same depletion allowance that we
2 have illustrated here.

3 MR. STEWART: The point has been made in the
4 United States, Mr. Ewens, I believe, that percentage
5 depletion may not help a small man a great deal until
6 he can get himself on an established production basis,
7 at least when the percentage depletion is subject to a
8 profits limitation. Would you care to comment on that?

9 MR. EWENS: Well, on a percentage of profit
10 basis, depletion can be of no assistance until there
11 is a profit.

12 MR. STEWART: So that the small man, particularly
13 the small man who is getting started, is not going to
14 benefit from that particular allowance for some time;
15 but of course I suppose this is equally true of the
16 present Canadian allowance.

17 MR. EWENS: That is right.

18 MR. TWAITTS: Yes, that is right.

19 MR. STEWART: Now, in paragraph 34 and 36 you
20 compare in certain respects the American tax position
21 and the Canadian tax position.

22 In paragraph 34 you say that United States
23 companies, through a combination of consolidated tax
24 returns and more adequate depletion provisions, are able
25 to use United States tax savings to carry out exploration
26 programs in Canada at lower cost than if the same
27 operations were carried on by Canadian companies.

28 Then in paragraph 36 you deal with the American
29 foreign tax credit situation. Do you know whether these
30 particular features of United States tax law are currently



1 under review in the United States?

2 MR. EWENS: What do you mean by "under review"?

3 MR. STEWART: Well, do you know whether it is
4 currently being suggested that American law be changed
5 in these respects?

6 MR. TWAITS: It is constantly being suggested
7 or under review.

8 MR. STEWART: You mean these particular tax
9 features?

10 MR. TWAITS: Not only these but a host of
11 others connected with the petroleum industry.

12 MR. STEWART: In paragraph 37 you say that
13 Canadian tax laws clearly favour the development of
14 Canadian resources by United States companies. I would
15 like just to canvass that with you and put certain
16 propositions to you in that regard.

17 I take it that you would not suggest that, under
18 our present Canadian laws, there is any discrimination in
19 favour of American companies as opposed to Canadian
20 companies?

21 MR. TWAITS: No, sir.

22 MR. STEWART: Then you do make the point that
23 the Canadian rules as to depletion are not as favourable
24 as those in the United States. But are you basically
25 suggesting then, that we make our Canadian depletion
26 rules more favourable to Canadian capital. I do not mean
27 that in a discriminatory sense, but I mean more favourable
28 to capital generally. In other words are you asking us
29 to approximate the Canadian rules to the American rules?

30 MR. TWAITS: That is exactly what we are saying,



1 Mr. Stewart. We believe that the depletion as it has
2 been attributed in this country, has not done its job or
3 acted as the proper incentive and this is open to
4 everybody on the basis we are suggesting.

5 MR. STEWART: Then I would like to discuss
6 with you the general rule of depletion in the petroleum
7 industry. You have made it clear verbally this morning
8 that you think it should be treated as an incentive
9 provision. In the early part of Part B of your brief
10 you suggest other arguments for a depletion allowance.
11 I refer in particular to pages B7 and B8. In paragraph
12 17 you say that initially the allowance recognized the
13 exhaustible nature of certain natural resources and
14 the equity of recognizing a tax free return of the
15 capital represented by those resources. Then it came
16 to be recognized that the funds made available could
17 be used to replace the depleted resources with new
18 discoveries.

19 At the bottom of that page you refer to
20 the defence factor.

21 On page B8 you refer to depletion in relation
22 to conservation practices.

23 In order that we may have this established
24 again, in a consideration of depletion generally, let
25 me put this hypothetical case to you. Take a company
26 which is starting in 1963 in this industry in Western
27 Canada. Are we in this position that it can recover
28 its exploration and drilling expenses and its acquisition
29 costs under Section 83A completely, so that any
30 depletion which it attains or is allowed is over and



1 above the amount of those particular expenditures and
2 that it is also in the position that, if it is fortunate
3 and achieves substantial production, it can, through the
4 operation of the depletion allowance, recover several
5 times what it has invested in the properties and in
6 exploration and drilling expenditures?

7 MR. TWAITS: If it stops exploring, Mr. Stewart?

8 MR. STEWART: Subject to that -- it is in the
9 position that if it continues to explore its recovery of
10 depletion is deferred?

11 MR. TWAITS: That is right.

12 MR. STEWART: Now, as you know, there has been
13 criticism in the United States at any rate in recent
14 years of depletion in the petroleum industry. What I
15 would like to do, if I may, is mention certain points
16 which I understand have been raised in the United States
17 and which may or may not be relevant in Canada, so that
18 you can indicate whether or not you think they are
19 relevant and whether or not you think they are valid.

20 My first point takes me back to some of the
21 earlier discussions this morning. You were indicating
22 that you considered that the rate of return on equity
23 capital in Canada at the present time may be running
24 in the general neighbourhood of 7 to 9 per cent after
25 tax.

26 I would like to ask you whether this general
27 return, this general area of 7 to 9 per cent is
28 applicable to the petroleum industry as well as to other
29 industry.

30 I think I should explain, before I put the



1 question to you, that if the net return in the petroleum
2 industry after tax is in the same general area as the
3 net return in other industries, does it not follow by
4 virtue of the existence of the depletion allowances that
5 the pre-tax return in the petroleum industry is lower than
6 the normal return in industry.

7 MR. TWAITTS: Yes, if your question presumes that
8 we are receiving depletion. Again we are talking about
9 the industry as a whole. I do not think you can make a
10 general assumption like that.

11 MR. STEWART: Mr. Twaits, I understand that the
12 number of companies in Canada which up until now at any
13 rate have been able to take advantage of the depletion
14 allowance in the petroleum industry is quite limited. I
15 am not asking you to identify companies which have or
16 have not. If in this regard there were a distinction,
17 for example, between the integrated companies and the
18 straight exploration and production companies, and if
19 the integrated companies as a group may have had some
20 benefit from the depletion allowance, then in those cases
21 if the after-tax return is at the normal rate for
22 industry generally, would it not follow that the pre-tax
23 return would be less?

24 MR. TWAITTS: As a mathematical factor I would
25 agree with the arithmetic.

26 MR. STEWART: Then what would you say about this
27 point, which I think has been made in American literature
28 and hearings and so on. If a depletion allowance is
29 being granted to an industry where the pre-tax return is
30 less than normal, the question arises whether there is a



1 mis-allocation of our overall resources and a question
2 whether the depletion allowance should be removed so
3 that the applicable resources would be available to
4 industries which produce the higher pre-tax return.

5 MR. TWAIT: That is quite a question. There
6 is undoubtedly an awful lot of dialectics in this
7 question of depletion -- which, by the way, is not
8 restrained to the oil industry.

9 There are many other industries enjoying
10 depletion.

11 I would like to start out, first of all, by
12 saying as categorically as I can that there is no
13 question in my mind that the depletion rate is largely
14 responsible for world-wide development of oil resources
15 and it has been of immense value to the western world as
16 well as to the companies involved.

17 Secondly, you cannot divorce this question of
18 depletion in the United States without taking a look at
19 the western hemisphere corporation and various other
20 devices which are incentives to foreign ventures and so
21 on.

22 In our case we could back down to the fact that
23 we are living in that kind of a competitive atmosphere
24 in which the whole world price structure reflects this.

25 As to research allocation, I do not think I
26 want to get into an argument about that, because there
27 is a balance of notes but I would like to point out the
28 experience of our own company, if it may serve to put this
29 in proper focus, if this is the appropriate time to do
30 so.



1 MR. STEWART: By all means.

2 MR. TWAITS: In all the pre-western development
3 there was not a question in our mind that we would have
4 depletion on a property by property basis. We were
5 shocked when it was interpreted the other way. Now we
6 have, as you know, tested this in the courts and in other
7 ways. I believe our shareholders in all this time
8 have only been entitled once to shareholders depletion.
9 The problem facing us is as simple as this, and I have
10 got down to a few technicalities. You have used the
11 example of somebody new going out into the industry.
12 You do not start and explore by just forming a company.
13 If you are going to find an oil reserve or a gas reserve
14 in this country, you need great big exploration efforts,
15 what we call a primary explorer who opens up new areas,
16 and he does not do this with a few people or a couple of
17 geologists. It is an amazing effort. There is then
18 the secondary part of the industry which exploits and
19 does further exploration.

20 Our problem is simply this, and I think it is
21 typical of other companies. Ours perhaps may be a little
22 more unique in the way of background. We have the
23 problem of carrying largescale multi-million dollar
24 exploration company which consistently costs us 67½ cents
25 in the dollar, yet by all the standards we know --
26 national, provincial and in every other way -- the
27 country needs this largescale effort; because we know
28 that what you have to do in this game is explore, it is
29 a consumable commodity. Therefore to put it bluntly,
30 I am not interested in the welfare of people who can buy



1 oil shares and gain depletion, the fellow who will hunt
2 one year and does not hunt the next year. I am interested
3 in preserving the industry, one that is actively
4 developing new resources. This is not a political speech.
5 I am trying to make the point clear that there are all
6 kinds of people in this thing.

7 MR. STEWART: What I am trying to do of course
8 is to get your approach to some of these questions which,
9 as I say, have been raised. I am sure that implicit
10 in what you have just said is the proposition that this
11 is a high risk type of operation which you are engaged
12 in.

13 MR. TWAITTS: It is a high risk but it also needs
14 skilled people. It is not a question of sending out a
15 few prospectors.

16 To answer your question more specifically, since
17 1928, to my certain knowledge, depletion has been under
18 fire in the United States. I believe it is correct that
19 the House Committee has thrown out a lot of these
20 proposals. Whether there will be a change or not I do
21 not know but it certainly has survived a long stretch of
22 test of time.

23 MR. STEWART: One of the propositions which I
24 think has been put in the United States on this high risk
25 aspect is of course that granted the petroleum industry
26 or the people who are engaged in serious exploration are
27 engaged in a high risk industry, there are other high risk
28 industries as well. Some of them, it has been suggested,
29 are the electronics industry, the atomic energy people and
30 even such industries as the automobile industry would no



1 wish to be regarded, by those engaged in it, as a high
2 risk. These other high risk industries have not got
3 this particular tax benefit. Therefore, the allegation
4 is that this depletion allowance, which is unquestionably
5 an incentive, is a very real preference to the petroleum
6 industry and the other extractive industries.

7 MR. TWAITTS: I think that our view on the oil
8 industry in these days of technology is a relatively high
9 risk one and that it occurs in particular in corporate
10 income tax and special allowances and a variety of things
11 which affect all industry.

12 The fact is that we have chosen and are living
13 in an atmosphere in which depletion is a recognized tax
14 factor. In those industries we have to go out and
15 search for the raw material. That is the kind of
16 atmosphere we are living in.

17 MR. STEWART: Let us consider what the allowance
18 should be. In the American discussions, a number of
19 alternatives to the present system were put forward. I
20 am conscious that these should be looked at in the
21 Canadian perspective. The Canadian perspective appears
22 to be that the industry can recover its costs of
23 acquisition now and its exploration and drilling
24 expenditures as a deductible expense and that it also
25 has this rate of depletion.

26 One of the suggestions which has been
27 developed in the United States is that the allowances
28 should be limited to cost, but on the basis that there
29 might be a fairly rapid write-off of cost, that would
30 not appear to be particularly appropriate in Canada



1 because the cost is obtained anyway under Section 83A.

2 Another suggestion which has been made,
3 however, and I was interested to see that on page B13
4 of your brief, a somewhat similar thought was expressed
5 with regard to exploration costs. A suggestion which
6 has been made in the United States is that the maximum
7 amount of depletion which should be permitted would be
8 a particular percentage of cost. If at random we take
9 a figure of 200 per cent, so that there is a distinct
10 incentive element, the application of that in Canada
11 I suppose might be that you recover what you are
12 permitted to recover under Section 83A and that a
13 depletion allowance might be limited to an equal amount.
14 Therefore in one way or another you get 200 per cent
15 of cost. Now whether it is 200 per cent or some other
16 percentage, what would you say as to the fairness of
17 some overall limitation on the amount that can be taken
18 by way of depletion?

19 MR. TWAITTS: There are possibly two or three
20 answers available here, Mr. Stewart. I would like to
21 make a request to be allowed to digress for one moment.
22 In one assumption you get 100 per cent of acquisition
23 and drilling costs and you refer and go back to the
24 fact that they have to capitalize. I think we should
25 realize that this is only a time factor, that there is
26 a difference between one year and another. I think you
27 have to take the position that by and large we find we
28 have to take it on the lowest U.S. basis, no matter what
29 way it is, because there are going to be differences in
30 translation and so on. What we have proposed here is,



1 we think, roughly competitive. If they go to take some
2 other limitation, and they have a lot of other problems,
3 I am afraid I still have to take the position that we
4 have to find some way of being just as competitive, but
5 I cannot measure it unless one can see it in an exact
6 form.

7 MR. BARRETT: I am just worried, Mr. Stewart,
8 that you are getting into the area where exploration and
9 drilling expenditures affect depletion. Then, if you
10 are putting one against the other, you are into a
11 depletion calculation that is not an incentive to explore,
12 which is what it should be.

13 MR. STEWART: I think I would quite agree of
14 course that one has to look at this picture overall, that
15 you have to take into account both the exploration and
16 drilling end of it, and the land acquisition end of it
17 as well as the depletion. If you assume that the
18 objective of our tax system in relation to the petroleum
19 industry, or one of the objectives, should be to permit
20 the recovery over a reasonable period of reasonable costs
21 and also provide an incentive, then I think what we are
22 talking about now is the quantum of the incentive. As
23 I say, I am referring to points which have been raised
24 elsewhere and I am trying to get your reaction to them.

25 MR. TWAIT: I knew you were trying to get
26 at the quantum aspect. I think that the only real
27 reaction I can give to you is that there are many other
28 complicating factors in the United States law and in the
29 United States situation. It would be quite possible
30 to argue in one case that if the present 27½ per cent



1 of growth, 50 per cent of net, is substantially reduced,
2 it would in fact reduce the inflow of money into
3 exploration of oil in the United States.

4 On the other hand, as to the degree to which
5 you do that, as far as we are concerned here we have to
6 take the position that our main concern is to be
7 competitive. Now, as to putting that in quantum terms,
8 I do not know. Perhaps if they changed their act to a
9 15 per cent growth, it might be okay, but it might not
10 be.

11 MR. STEWART: In the United States as you
12 no doubt know, it has been suggested that 25 per cent
13 might be reduced to 15 per cent. It has been suggested
14 that the net income limitation might be reduced from 50
15 per cent to 25 per cent or 30 per cent. It has also been
16 suggested that there should be varying rates of depletion
17 for large and small producers. I note that Mr. Twaits
18 shakes his head about that.

19 MR. TWAITS: Both suggestions are not new.
20 From my knowledge, this has been going on for twenty-five
21 or thirty years and legislation has stood this test of
22 time, for good reasons, that some of the proposals are
23 administrative monstors.

24 MR. STEWART: Another suggestion of course is
25 that this particular preference to the petroleum
26 industry or the extractive industry should be taken out
27 of the tax field altogether and that corresponding
28 provisions be made in some other way.

29 MR. TWAITS: As a personal preference, I would
30 much sooner have it a matter of tax law than have what



1 I think you refer to, a subsidy or something of that kind.

2 THE CHAIRMAN: Before you move away from
3 depletion, I have a series of questions. What the
4 country gets for the tax concessions by way of depletion
5 is presumably more exploration than would otherwise
6 occur. That is the purpose of depletion. Now, if I go
7 to your graph, you show that there has been a deficit
8 from 1947 to 1961 of \$1,800,000,000.00 or thereabouts.
9 I do not for one moment think that your industry has
10 lost money. It has gained discovery. The reserves have
11 increased and that is where this money has been spent.
12 I would estimate that the reserves have gone up enough
13 from 1947 to 1961 to take care of the huge expenditure
14 here and also make a profit. That is correct, is it not?

15 MR. WAITTS: No, no, not an industry profit, Mr.
16 Chairman.

17 THE CHAIRMAN: I am sorry. That is not so?

18 MR. WAITTS: I do not think we can give you
19 exact figures. For last year, 1962, we cannot give
20 you profits, but last year was the first time that the
21 cash income exceeded outflow in the western Canada
22 exploration and producing field.

23 THE CHAIRMAN: That does not mean very much ---

24 MR. WAITTS: Everyone is in a different position
25 and we can only estimate the gross income.

26 THE CHAIRMAN: The only point I was making was
27 that there has been a pretty substantial increase in
28 the reserve and, as you point out in paragraph 27, it
29 is very important to have a substantial increase in
30 exploration activity for oil, and that reserves mean



1 development, to meet the demands in the seventies. Is
2 there a serious threat that we are going to run out of
3 oil?

4 MR. TWAITS: No, that is not the point. There
5 is far more oil in the world than anyone would have
6 thought a few years ago. What we are saying is that we
7 require largescale exploration to exploit this fully.
8 A barrel of oil in the ground now is not worth very much
9 twenty years from now. Your objective is to explore for
10 sale.

11 By the same token, the reserves that have
12 accumulated in this must support a consumer rate of
13 roughly 800,000 barrels a day. That is not all crude
14 oil. The point I am making is that we must support a
15 great reserve effort, to support the production rate we
16 have now, plus the normal growth of the market over
17 the next ten to twelve years. Behind that we have a
18 number of other hydrocarbons if they are economic.

19 THE CHAIRMAN: Then I take it in the national
20 interest there should be the greatest accent on
21 exploration.

22 MR. TWAITS: Yes, I think you have the example
23 of the western provinces making every effort they can
24 today to make changes in their regulations. They are
25 active in Saskatchewan and Alberta to encourage more
26 exploration.

27 THE CHAIRMAN: Could we not relate the matter
28 of depreciation more closely to the amount of exploration?
29 I have not heard a formula which does it very closely,
30 although the one you have suggested comes more closely



1 than what it is now. Could we not devise a plan whereby
2 the larger the portion of one's income spent on
3 exploration the more depletion the man secures. For
4 instance, if he does no exploration he gets no
5 depletion, starting at one end of the scale; if he
6 spends 50 per cent of income on exploration, he gets
7 50 per cent depletion and therefore pays no taxes. It
8 could be graduated in between. Would that not be the
9 best way -- to relate depletion to incentive exploration?

10 MR. TWAITTS: I have a view on that but I would
11 like you to hear some of my colleagues.

12 MR. EWENS: I think a move of that kind
13 certainly did take to all members of the industry how
14 they spend their money. It does not suit everyone.

15 THE CHAIRMAN: This is expenditure for the
16 nation, in the national interest. I have been told that
17 the national interest is best served by exploration.

18 MR. EWENS: By this method you would cut
19 depletion away from the company that has explored in the
20 past.

21 MR. TWAITTS: You have all kinds in the
22 program and it would be difficult to administer. Even
23 more than that, if you had some scale of this kind you
24 might find yourself simply inflating your exploration
25 costs and not contributing more to the effort
26 proportionately.

27 MR. HAMILTON: In reality, quite frequently
28 you can only spend so much on exploration in any
29 particular year, because you have not either the
30 personnel or the land acquisition and you might very



1 well throw the money away.

2 THE CHAIRMAN: If you did, you are going to
3 lose some of it yourself.

4 MR. TWAITTS: We would be most happy to explore
5 that a little more, if it would be of any assistance
6 to you.

7 THE CHAIRMAN: It seems a logical approach to
8 it. You tell me that the most important thing is
9 exploration and you think this the most incentive to
10 good exploration. Why not relate the two?

11 MR. TWAITTS: I think our real answer is that
12 there are so many entities, so many different positions.
13 Our second answer is that it might simply tend to
14 inflate the expenditures without doing what you want to
15 do.

16 THE CHAIRMAN: I must say I have not tried this
17 out on my staff and I am speaking on my own. Perhaps
18 it is quite impracticable, but it seemed to me a
19 perfectly logical answer to what you say.

20 COMMISSIONER GRANT: There is a point which I
21 would like to have clarified before you move to another
22 topic.

23 If the laws were to be changed as you advocate,
24 a percentage of depletion would be taken from the gross
25 profit before the deduction of the expenses permitted,
26 and costs incurred under Section 83A, then relating that
27 to the straight exploration company, I understand that
28 you would not permit that 25 per cent depletion to be
29 used to set up a business loss.

30 Therefore would you not be putting your



1 Canadian company that had no surplus or no cash position,
2 no profit position, at a disadvantage to the American
3 combine?

4 MR. EWENS: It would be at a lesser disadvantage
5 than it has today, because it would have a prospect if it
6 became successful of having a more adequate allowance than
7 it has now.

8 COMMISSIONER GRANT: If it were not permitted to
9 set up a business loss, then until it acquired a profit
10 it would be a straight expense for which there is no
11 recovery. Would that not prove a disadvantage to
12 exploration in Canada?

13 MR. BARRETT: Mr. Commissioner Grant, the
14 drilling and exploration cost would still be carried
15 forward from year to year, with no five year limitation.

16 COMMISSIONER GRANT: But with no depletion.

17 MR. BARRETT: No depletion.

18 COMMISSIONER GRANT: Which still puts it at a
19 disadvantage.

20 MR. BARRETT: My answer, like that of Mr.
21 Ewens, is that it is a lesser disadvantage.

22 MR. TWAITTS: I would say it is substantially a
23 lesser disadvantage, if it is going to keep on exploring.

24 COMMISSIONER GRANT: I was concerned about a
25 group that might decide to get into this business as a
26 new organization. They would say: "What is the use,
27 there is not much point in getting into this because
28 we are under a disadvantage in that all we are going to
29 be allowed is depreciation.

30 If we don't find anything in the



1 first number of years, we are only going to be allowed
2 our actual cost plus depreciation on capital.

3 MR. TWAITS: Is that not a question of the
4 gamble of setting up that group. Are we talking about
5 two different things. If this company goes into the
6 business of exploration seriously and with a prospect of
7 getting the business and producing oil, and it is better
8 off today under our suggestion than it was before. Now,
9 whether it has any limitation on selling on a tax loss
10 basis I do not know. I do not think we could answer
11 that.

12 COMMISSIONER WALLS: I would like to ask one
13 question, which is not on the same topic. How many
14 proved wells have been capped in northern areas probably
15 purely because they are less profitable to exploit at
16 the present time than some of your other resources?

17 MR. TWAITS: Our definition of north is rapidly
18 lessening in value. There are production wells right
19 up into the lower part of the Northwest Territories and
20 we operated a field and refinery at Norman Wells in the
21 north near the Arctic circle. There is exploration going
22 on at Norman Wells and right up to the Arctic. There
23 is at Norman Wells one discovery which I do not know is
24 commercial or semi-commercial at this point. There is
25 not to my knowledge any test well which has shown any-
26 thing except interest in the Arctic.

27 COMMISSIONER PERRY: I have a point to raise,
28 which is not my point but a point raised at the Gordon
29 Royal Commission. It is this point of the processing
30 and marketing profits for a depletion allowance.



1 I happened to pick up my copy of the preliminary
2 report. I do not suppose the final report made much
3 change. ...On reading it, I find they did suggest the idea
4 of a gross depletion rate. They did also partly to
5 eliminate any advantage, which they call a considerable
6 advantage, given to the large integrated companies, by
7 the inclusion of refining and marketing profits.

8 Then they go on to cast some doubt as to the
9 validity of this inclusion in any event.

10 I have just a couple of questions. First of
11 all, is it true that the depletion based does include
12 this? Do you have any comment on the comments of the
13 Gordon Commission?

14 MR. EWENS: I wonder if you would repeat your
15 first question.

16 COMMISSIONER PERRY: Is it true that the base
17 for depletion allowance includes, in their words, income
18 from refining and marketing?

19 MR. EWENS: No, that is not correct.

20 COMMISSIONER PERRY: You are saying that this
21 document is incorrect?

22 MR. EWENS: No, we are saying that you do not
23 get depletion on marketing profits.

24 MR. TWAITTS: We only get depletion on the
25 profit determined from our producing operations. That is
26 all.

27 COMMISSIONER PERRY: Production and income
28 costs?

29 MR. TWAITTS: Yes.

30 COMMISSIONER PERRY: Then I have to go back to



1 school and learn how to read.

2 MR. TWAITS: As a matter of fact, Mr.
3 Commissioner Perry, I find that section very difficult
4 also, and while it has general support for the idea of
5 depletion allowance, I could not understand the
6 reasoning.

7 COMMISSIONER PERRY: What then does it mean?
8 It says in effect that an integrated company that
9 obtained a depletion allowance on their proportion of
10 profits earned on the oil -- this is all on the
11 argument that income from refining and marketing is
12 included. Would this have been true in 1956?

13 MR. TWAITS: No, at no time.

14 COMMISSIONER PERRY: Was there litigation
15 pending on that particular point, on the allocation of
16 profit as between the different phases?

17 MR. TWAITS: There was never any problem in
18 that, because there was a clean break in posting the
19 prices at the wellhead.

20 THE CHAIRMAN: It is computed on your wellhead.

21 COMMISSIONER PERRY: Someone appears to have
22 misunderstood something. Then the next question I
23 have does not follow, because it was a comment on this
24 practice.

25 MR. TWAITS: No.

26 MR. HAMILTON: The only thing I can possibly
27 think of is that if you have income from other sources
28 that you can deduct expenses, but it has nothing
29 whatsoever to do with depletion.

30 COMMISSIONER PERRY: I will read this again



1 carefully but I think that in the points I have quoted
2 to you -- and I think Mr. Twaits agrees -- there is an
3 application there.

4 MR. TWAITS: I am familiar with that and was
5 not able to find out why it was put that way.

6 COMMISSIONER PERRY: I think this is the
7 product of a couple of fairly distinguished chartered
8 accountants, none of whom are on this Commission.

9 MR. TWAITS: We would be very happy if there is
10 any other question, to prepare data and send it in to
11 the Commission.

12 MR. STEWART: Yes, we may get to that point,
13 but there are two or three matters to which I would like
14 to refer briefly now. The first one arises from page B10
15 of your brief and in particular paragraph 24 on that
16 page, where you refer to the fact that between 1947 and
17 1962 there have been expenditures amounting to \$6 billion
18 and recoveries in effect of \$4.1 billion, so that \$1.9
19 billion is still to be recovered in production.

20 I have a series of questions there which I
21 could put to you together.

22 I take it that some of the \$1.9 billion will
23 ultimately be written off under Section 83A, that some
24 of it is presumably lost for good, because the companies
25 which incurred it may have disappeared from the scene.
26 What I would like to do, if possible, is tie your figure
27 in with a couple of figures which appear in this oil and
28 gas pamphlet which I have referred to. In that pamphlet
29 on page 197 in the second paragraph there is a discussion
30 of the amount of bonus and acquisition costs which has



1 not been recovered up to 1960 and it is suggested, and this
2 is purely an estimate, that the figure might amount to
3 \$500 million.

4 Turning over to page 290 of the pamphlet, there
5 is another suggestion or another estimate, in the third
6 complete paragraph on that page, which is that \$1 billion
7 might have been expended up to that time on cash bonus
8 payments, of which perhaps not more than \$100 million had
9 theretofore been recovered by way of depletion.

10 As matters now stand and as I understand it,
11 these pre-1962 bonuses and land acquisition costs remain
12 to be written off through depletion. If we are consid-
13 ering any change in depletion allowances, it seems to me
14 that there is a figure here which is very material. I
15 wonder if you could comment yourselves on the amount that
16 may be involved, the amount that could not be recovered
17 under Section 83A and which still remains to be
18 recovered by the industry as a whole through depletion.

19 MR. TWAITTS: Mr. Stewart, I think it would be
20 impossible for us to get that figure. It is only
21 recoverable through depletion if they are successful.
22 It depends on the company, the property and the history.
23 I do not think we would have any sort of estimate. Do
24 not forget that the figures on 24B(10), that is, \$6
25 billion and so on, are gross numbers, including
26 everything. However, here in the tax foundation
27 pamphlet they are talking about bonus payments only, so
28 it is only a portion of this. I do not think we can
29 say that there is even \$1.9 billion which reflects cash
30 income and outflow. This is the only way we have to



1 measure it. We do not know. That position will be
2 undoubtedly much worse than it is, I mean, in terms of
3 numbers, but I am afraid we could not say that so much of
4 this is possibly recoverable from depletion and so much
5 is possibly recoverable from Section 83A.

6 MR. BARRETT: Mr. Stewart, this would be land
7 acquisition costs other than bonus payments to provincial
8 governments, is that the figure, prior to April?

9 MR. STEWART: I was trying to see if we could
10 establish a figure of cost which I think would primarily
11 be bonus payments incurred before the 1962 amendments
12 came in and not recoverable under Section 83A and which
13 remained to be absorbed through depletion.

14 MR. TWAITS: Would you let us take a look at
15 that. I do not think we have a chance to do so now.

16 MR. HAMILTON: We do not really know the tax.
17 We would need to know the tax position of every company.

18 MR. STEWART: I am not as concerned with whether
19 they will ever be recovered through depletion as I am
20 concerned with knowing the magnitude of the problem. If
21 these were expenses which were incurred while certain
22 depletion rules were in effect, then if ultimately the
23 Commission is reviewing depletion rules and the whole
24 question of depletion, there is a built-in problem there
25 which should be taken into account.

26 MR. TWAITS: Are you concerned as to the
27 impact also on revenue?

28 MR. STEWART: In the pamphlet here, in the
29 second place that I referred to, it is pointed out that
30 if there is a problem amounting to \$1 billion, then in



1 order to recover this through depletion on the present
2 rules, you have to have \$3 billion of revenue, without
3 taking anything into expenses, without taking any expense
4 into account at all. Therefore, there is quite an
5 amount. And therefore I think the effect on revenue is
6 certainly material.

7 Now, if I could move on to another point
8 altogether. In due course we will have before the
9 Commission representatives of some of the non-integrated
10 companies. For that reason I would like to get your
11 reaction, if I may, to the proposition that the present
12 tax rules discriminate in favour of the larger integrated
13 companies as opposed to the non-integrated companies.

14 The reason for this suggestion, as I understand
15 it, are that the integrated companies are in a position
16 to set exploration and drilling, and now land acquisition
17 costs, off against non-production income, and that that
18 advantage is material in several respects.

19 In first place, it permits the integrated
20 company to absorb its exploration and drilling expense
21 and now its land acquisition costs, at an earlier stage.
22 Certainly, it permits it to set that type of expense
23 off against income other than production income.

24 It is also suggested I think that this permits
25 the integrated company to obtain depletion at an earlier
26 stage than the non-integrated company. Perhaps you
27 might care to comment on these particular propositions.

28 MR. TWAITES: Aside from the technical points,
29 Mr. Stewart, I find it very difficult to see where the
30 fact that one operator -- let us leave out the word



1 integrated and simply say an operator -- starting out
2 with some income against which he has been charged
3 section 83 expenses, has an unusual tax advantage over
4 somebody who starts a company fresh and has to raise
5 capital to do exploration.

6 Now, this is a fact of life, I guess, in every
7 business there is. It is not a question of discrimination
8 in favour of integrated companies as opposed to independent
9 companies. It is simply a question that if one fellow
10 has income to start out in a business, in an enterprise
11 of any sort, then I am sure he is in a little more
12 secure position to start than the fellow who has to go
13 out and raise money.

14 MR. STEWART: Mr. Twaits, if the object of this
15 exercise is to encourage exploration, do the critics of
16 the present situation not go one step further and suggest
17 that this deduction should be permitted only against
18 production income?

19 MR. TWAITS: I suppose there has been recent
20 amendments.

21 MR. STEWART: In a sense that land acquisition
22 costs are also deductible.

23 MR. TWAITS: No, that you can deduct those
24 expenses from other operations, mining companies, pipe
25 line companies and so on.

26 MR. STEWART: But are not the rules as regard
27 corporations and syndicates, which the principle business
28 -- or the sole business in the case of syndicates -- is
29 in the petroleum field -- the rules for that type of
30 taxpayer are still different from those which pertain



1 to other taxpayers.

2 MR. EWENS: I agree Mr. Stewart that, as Mr.
3 Twaits says, this gets back to investment decision. The
4 company that is the sole producer, if it acquires any
5 other source of income, can charge exploration expenses
6 against it. It is a decision making process, whether
7 you want to start off in the service station part of
8 the business or in the producing part.

9 MR. BARRETT: Another partial answer is that
10 this so-called advantage -- for the moment say it is so --
11 only lasts until a producing revenue profit or integrated
12 company catches up with its drilling and exploration
13 expenses and then it is on the same basis as a pure
14 producer, with all its expenses deducted from pure
15 producing income. So it has a temporary advantage, if
16 it has one at all.

17 MR. STEWART: I can see that, Mr. Barrett, but
18 at the same time I read here that the number of
19 production companies which up until now had been able to
20 take advantage of the depletion allowance is extremely
21 restricted.

22 MR. BARRETT: That is correct.

23 MR. STEWART: In other words, when these
24 additional reserves are produced this situation may arise,
25 but a production company that has been in business for
26 the last fifteen years and has not been able to take
27 advantage of depletion so far, may feel that it is having
28 to go quite a long way.

29 MR. HAMILTON: What is the difference between
30 deduction from income and going out and borrowing capital



1 that you put into the business. There is no reality
2 in it. You are in effect borrowing the income from
3 another phase of the business and deducting your expenses
4 from that. I do not see how this is discrimination.

5 MR. STEWART: I would like to think over that
6 point. That is a new approach.

7 Mr. Chairman, my time is running out. As
8 regards Part C and Part D of this brief, they make a
9 number of interesting points. I think the points are
10 clearly expressed and that they will undoubtedly
11 receive of the Commission and its staff.

12 There is one subject which I would like to
13 refer to for a moment, if I may.

14 In Part C, you deal among other things with
15 the taxation of cooperatives. We have recently been
16 concerned here with that particular question. You
17 indicate on page C20 that you consider that patronage
18 refunds should be deductible only if they are paid in
19 cash either entirely or to some extent.

20 Now, I will deal with that perhaps on the basis
21 that where you say partially in cash you mean
22 substantially in cash, because as I understand the
23 practice at the present time there is ordinarily some
24 cash distribution.

25 The question I would like to put to you is
26 this. If the constitution of a cooperative is determined
27 under the statute which permits it to be incorporated,
28 and under its by-laws, provides that in the payment of
29 patronage refunds it is perfectly legal and permissible,
30 if the cooperative in joint meeting so determines, to pay



1 part of a patronage refund otherwise than in cash, are we
2 dealing here with a possible advantage of that particular
3 form of business organization which the tax legislation
4 should not interfere with?

5 In other words, if you deal with an ordinary
6 corporation which distributes its earnings to its
7 shareholders by way of cash dividends, no doubt the
8 management of some companies would be very happy indeed
9 in the law permitted dividends to be paid part in cash
10 and part in paper. This is more difficult at any rate
11 than the case of the ordinary corporation. Here you
12 have a particular type of corporate structure and the
13 tax man interferes with it.

14 MR. TWAITES: Mr. Stewart, in the first place
15 I think all submissions with respect to cooperatives
16 here is a technical recognition of the problem of dealing
17 with it in a democractic society. Over and above that
18 I think what we are really talking about here is the
19 problem of business organization. This is what we now
20 say is a form of business organization, with professional
21 management and so on, that as distinct from a standard
22 business organization has great tax advantages. To me,
23 that is the great problem. I say in our submission that
24 we recognize certain problems and made certain
25 recommendations. When it comes right down to that,
26 we are talking about the cooperative form of business
27 organization, in which one is not treated the same as
28 the other.

29 MR. BARRETT: Perhaps I might say that the
30 tax laws being neutral, it would affect them all.



1 MR. STEWART: I quite understand saying that
2 equality should exist, but I should have thought that
3 the alternative argument in support of that, at any rate,
4 would have been that the cooperative itself should be
5 taxed in the same way as its competitor, its competing
6 corporation, and what the cooperative did with its after
7 tax earning was really immaterial.

8 MR. TWAITTS: I do not think it is, Mr. Stewart.
9 I think we are getting into a discussion on double
10 taxation and so forth. I do not see any difference
11 between paying a dividend one way and paying it another
12 way and I think the ground rules should be the same.

13 MR. STEWART: Is not the basic point in
14 supporting neutrality in this respect, that the
15 cooperative should be subject to double taxation if the
16 ordinary corporation is?

17 MR. TWAITTS: Absolutely, yes.

18 MR. STEWART: Then in Part D you suggest, as
19 we indicated earlier, that there should be some provision
20 for discussion of tax measures between the Budget and
21 the introduction of the tax legislation. Now, may I
22 ask you simply this. So far as industry, or your
23 industry, is concerned, is that type of provision as
24 important as one which would permit discussion of
25 prospective budgetary changes with taxpayers, prior to
26 the introduction of the Budget.

27 MR. TWAITTS: I think they are both important,
28 Mr. Stewart. I believe that it is incomprehensible to
29 think that one or two people could put together a
30 federal Budget today, with all the factors involved.



1 Therefore, I am heartily in favour of consulting anyone
2 who can intelligently contribute to it.

3 MR. STEWART: Before the Budget comes out?

4 MR. TWAIT: Before the Budget comes out, as
5 to the achievement of objectives and the implementation
6 of it. The second part we are talking about here is
7 actually in the question of legislation. In a number
8 of places in this country, we have in our industry
9 excellent working arrangements with governments over
10 prospective legislation, where it is pre-read, pre-
11 discussed and examined, and an awful lot of potential
12 dangers and troubles have been avoided.

13 MR. STEWART: Then if we come to the point
14 federally where the Budget has been introduced and then
15 there is this three week period that you suggest which
16 begins to run. If a committee or group of the sort
17 that you have in mind were set up, do you contemplate
18 that it would address itself to any of these three
19 things:

20 First of all, the policy which is
21 reflected in the Budget resolution.

22 Secondly, the legislation implementation
23 of that policy.

24 Thirdly, the technical or other
25 amendments to the legislation which
26 had not in fact been referred to
27 in the Budget.

28 MR. TWAIT: First of all, talking about
29 discussing Budget resolutions in pre-federal budget
30 introduction, I think you are talking strictly policy.



1 MR. STEWART: But I am now addressing myself to
2 the period after the Budget.

3 MR. TWAITS: After the Budget. I have some
4 question about discussing it. You are talking about
5 when the resolutions are introduced?

6 MR. STEWART: That is right.

7 MR. TWAITS: I guess I am taking the same point.
8 What I am trying to say is that discussing the
9 implementation and discussing the policy are not things
10 for the same group of people. In other words what I
11 visualize is that the resolutions can be discussed with
12 what are your objectives, what do they really imply, and
13 so on. Then, when this is thoroughly understood, it
14 is then, when you come down to drafting legislation,
15 that you need a different form of provision.

16 MR. STEWART: In other words, you would
17 contemplate that after the Budget resolutions had been
18 introduced, a group could make representation about the
19 policy reflected in the resolution and that another
20 group could go ahead and make representations with regard
21 to the implementing of the legislation.

22 MR. TWAITS: That is right. But to go back,
23 before the resolutions are introduced, a government
24 ought to have access to anyone who wants to talk about
25 them.

26 MR. STEWART: My third question to you is this.
27 After the post-Budget period, would this group, or either
28 of these groups referred to, also be entitled to
29 suggest to the government representative that points
30 which had not actually been covered in the Budget



1 resolutions or in the implementing legislation should be
2 added.

3 MR. TWAITTS: Yes.

4 THE CHAIRMAN: Gentlemen, this hearing is
5 concluded. The next hearing will be at 9:30 tomorrow
6 morning. Thank you very much for your attendance this
7 morning. It has been very helpful to us. Your excellent
8 submission will continue to be studied by us and by our
9 staff.

10 MR. TWAITTS: We would be very glad, sir, to
11 give you any help we can.

12 ---Whereupon the Commission adjourned
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.:

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ROYAL COMMISSION ON TAXATION

Hearing held in the Centre Court
Room, Exchequer Court of Canada,
Supreme Court Building, Wellington
Street, Ottawa, on Tuesday, October
8th, 1963.

COMMISSION:

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MR. J. HARVEY PERRY
MR. A. EMILE BEAUVAIS
MR. DONALD G. GRANT
MRS. S. M. MILNE
MR. CHARLES E.S. WALLS

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Ottawa, Ontario
Tuesday, October 8, 1963.

---Upon commencing at 9:30 a.m.

THE CHAIRMAN: It is now 9:30, and I think we might start.

THE SECRETARY: Good morning, Mr. Chairman and Commissioners. The brief before you this morning is being presented by the Canadian Protestant League. Representing this organization are three gentlemen; Mr. Leslie H. Saunders, Past Grand Master of the Orange Association of Canada and Vice-President of the Canadian Protestant League; Reverend S. Wellington, Dominion General Secretary of the Canadian Protestant League; and Reverend W. S. Whitcombe, editor of the Protestant Action, and Past Dominion President of the Canadian Protestant League.

Rev. S. Wellington will address initial remarks to this brief, which I now enter into the record as Exhibit No. 214.

---EXHIBIT NO. 214: Submission of the Canadian Protestant League.

SUBMISSION OF
THE CANADIAN PROTESTANT LEAGUE

APPEARANCES:

REV. W.S. WHITCOMBE President and Auditor,

LESLIE H. SAUNDERS Vice-President,

REV. S. WELLINGTON General Secretary.



1 THE CHAIRMAN: Good morning, Mr. Wellington.
2 We are pleased to have you before us this morning to
3 assist us in our job here. We have read your submission
4 with considerable interest. We have heard this story
5 before, as you are undoubtedly well aware. We are glad
6 to receive it again. At the national level you, sir,
7 are presenting it, I understand, and will speak to it.
8 Before commencing I think you might tell us something
9 about the Canadian Protestant League. You have referred
10 to it in your submission, but if you would care to add
11 anything we would appreciate it.

12 REV. MR. WELLINGTON: Thank you, Mr. Chairman.
13 We are very happy to have this opportunity because we
14 feel that the matter that we have before us is one of
15 very vital concern. The Canadian Protestant League,
16 first of all, is an organization of Protestant people of
17 various denominations whose aim primarily is to keep
18 Church and State separate. That is, we believe, that in
19 the mind of the State all religions should be considered
20 equal, and that there should be no special concessions
21 accorded to any particular religious denomination. We
22 feel this to be the very basis of our democratic freedom.

23 We are really definitely aligned with other
24 groups who have similar viewpoints. We feel that we are
25 not alone in our stand. The matter of the interests of
26 all Canadian citizens is really entailed in the question
27 of complete religious freedom, and for that reason we,
28 as an organization made up of peoples of some 25
29 denominations, make it a strong point to emphasize the
30 great principles that came out of the reformation, and



1 we seek to keep the country free from domination similar
2 to that which existed previous to reformation days.

3 We do feel that there is a growing tendency in
4 the country today on the part of large pressure groups to
5 use the privileges and responsibilities of taxation for
6 their own sectarian interests. We believe that the
7 ideal of separation of State and Church is being broken
8 down, especially in the field of income tax concessions.

9 We feel that the matter of exemptions is an
10 area which is being taken too much for granted as some-
11 thing that should help individual church groups.

12 Now, the reference that we have in our brief
13 here --- the terms of reference really have to do with
14 the question of special concessions being accorded by the
15 Income Tax Act at the present time to members of
16 religious orders under vows of perpetual poverty --- is
17 to Section 27 (2). You have it before you.

18 We have tried to set out in the brief just how
19 this particular section of The Income Tax Act militates
20 against the principle of separation of Church and State,
21 and how all the citizens who pay their taxes are being
22 compelled involuntarily to subsidize particular religions
23 which they cannot in conscience accept or support. What
24 we say here with relation to the exemptions granted to
25 members of religious orders under vows of perpetual
26 poverty would apply if those concessions were being
27 granted to Baptists, United Church people, Anglicans,
28 Salvation Army people, or people of any religion. It so
29 happens, however, that the special concessions granted
30 to those under vows of perpetual poverty almost entirely



1 apply to the Roman Catholic Church, and for that reason
2 our brief has had to pinpoint this particular religion.

3 It is our hope that as we have presented this
4 brief the Commission will see something of the point that
5 we are trying to make, and will assess the situation in
6 the way in which we see it.

7 We feel that there is only one solution to the
8 problem, and that is that this particular section of the
9 Act be completely deleted, in all fairness to everybody.
10 We feel that another area of inequality in the matter of
11 income tax exemptions is found in the way in which
12 certain groups in this country have taken advantage of
13 the privilege of Section 27 (1). The inequalities are
14 occasioned by excessive claims in respect of donations
15 for charitable purposes. We feel that the concessions or
16 exemptions allowable in respect of donations to religious
17 or charitable purposes are potentially bad for the
18 simple reason that it gives rise to all manner of
19 irregularities and to the very thing that we are talking
20 about, the special concessions and privileges.

21 We would submit and suggest that it would be
22 a good thing for the whole of our economic structure,
23 and our whole democratic structure, to delete the idea of
24 concessions or exemptions for charitable donations
25 altogether. In this way we would delete also the obvious
26 irregularities which have been enormous. It would delete
27 a lot of expensive bookkeeping. We feel, rather, that
28 perhaps it might be a good thing for the Government to
29 consider increasing the basic exemptions allowable to
30 all citizens, and in this way no one would suffer.



1 I think everyone would benefit.

2 The third area of inequality seems to be in the
3 fact that very few, if any, of the Roman Catholic clergy
4 are paying income tax at all. I know a great many of
5 the Protestant clergy who very carefully and conscien-
6 tiously submit their income tax returns, and who try to
7 give every detail, and they are assessed probably four or
8 five times more when their tax return has been submitted,
9 but there are no priests who, to our knowledge, pay
10 income tax, the reason being, of course, that there is
11 no accurate reporting of the greater bulk of the
12 priests' income such as gratuities received from the
13 course of their duties such as masses, weddings,
14 funerals, and so on.

15 We feel that there is room for considerable
16 improvement in the question of reporting one's income.
17 It seems unjust and it seems democratically wrong that
18 one class of religious people should claim so much
19 exemption and go free from paying taxes. This makes it
20 compulsory for everybody else to bear their share as well
21 as their own, and it is a thing that we feel is of
22 tremendous importance.

23 We submit our brief for consideration on these
24 grounds, Mr. Chairman.

25 THE CHAIRMAN: Thank you very much, indeed.
26 We have a few questions that we would like to put to you.
27 There is no need to stand, unless you wish. I think we
28 might take the three matters that you have raised one by
29 one, and look at each one separately. Let us take vows
30 of perpetual poverty. Do you know if there are any



1 Protestant clergy who take vows of perpetual poverty, and
2 thus reap the benefit of this provision of the Act? I do
3 not say that they do it for that purpose, but I am
4 referring to cases where there is that result.

5 REV. MR. WELLINGTON: I believe there is a small
6 group of the High Anglicans who take such vows.

7 REV. MR. WHITCOMBE: I think it might be said,
8 Mr. Chairman, that most of us come within that category,
9 if not formally, because when we have used up our salaries
10 we have nothing left.

11 THE CHAIRMAN: I was going to put that question--
12 why not do this?

13 REV. MR. WHITCOMBE: I have done it. The order
14 to which I belong is the Order of Matrimony. Once I have
15 got through paying for my wife and family I am in
16 perpetual poverty, and I think that this applies to a
17 great many Protestant clergymen.

18 REV. MR. WELLINGTON: Mr. Chairman, you will
19 see that we have cited the fact that so far as the vows
20 of poverty are concerned, those who have taken such vows
21 are not really poverty-stricken. While they do not own
22 anything, they do not owe anything. They get free board
23 and lodging, clothing, medical attention, transportation,
24 and social security. It all adds up. We pay for that at
25 the rate of around \$4,000.00 or \$5,000.00 a year.

26 THE CHAIRMAN: Do you know whether they are
27 entitled to receive the old age pension? I would think
28 they are.

29 MR. SAUNDERS: I would imagine every citizen
30



1 of Canada is entitled to the old age pension, although I
2 am ~~not~~ sure about that.

3 THE CHAIRMAN: Yes, I would have thought so.

4 REV. MR. WELLINGTON: If that were the case, it
5 would mean that the old age pension also would be sub-
6 mitted to the Order to which they belong.

7 THE CHAIRMAN: I was surprised that you did not
8 mention that here. The Canadian Protestant League
9 represents 25 denominations, you tell me. Is it
10 organized in such a way in which there appear represent-
11 tatives ~~in~~ all the denominations? What is the form of the
12 organization? I know very little about it.

13 REV. MR. WELLINGTON: The form of the organiza-
14 tion is that we have a Dominion Council composed of a
15 President and three Vice-Presidents in three different
16 areas of Canada, a General Secretary and a Treasurer.
17 We have regional organizations in each province the setup
18 of which is very similar to that of the Dominion Council.
19 We have branches in each of the provinces, and these local
20 branches function ~~at~~ their level in the same way. It is
21 not interdenominational in the sense that church groups
22 as such are members, but it has an individual membership.

23 THE CHAIRMAN: So not necessarily are the 25
24 denominations represented on your Council?

25 REV. MR. WELLINGTON: Not necessarily on the
26 Council. We are substantially represented by various
27 denominations on the Council.

28 THE CHAIRMAN: Would your brief have gone up
29 from the regional areas to the denomination level, or is
30 this a submission by the officers of the National Council?



1 REV. MR. WELLINGTON: Well, the question has
2 been discussed on several occasions at our annual Dominion
3 Council meetings, and this is really the product of such
4 discussions.

5 COMMISSIONER WALLS: I was just wondering, if
6 you are going to take exception to the use by the Roman
7 Catholic clergy of Section 27 (2), whether Section 26 (1)
8 is also discriminatory. Section 26 (1) allows an
9 exemption of an extra \$1,000.00 to ministers who maintain
10 a self-contained domestic establishment.

11 THE CHAIRMAN: It may be discriminatory as
12 between religious orders and the community, but not
13 discriminatory as between one denomination and another.

14 COMMISSIONER WALLS: Oh, no.

15 MR. SAUNDERS: I think I might answer that.
16 This is of recent vintage. I think that came into being
17 because taxes were not being paid by Roman Catholic
18 priests, and there was a lot of pressure applied. I
19 think it is wrong. Every time there is an exemption you
20 put the load on everybody else. I pay income tax on my
21 gross. I submit a form for the men who work in my plant
22 on their gross, and not on what they have left over after
23 they have paid their rent. I think everybody should
24 stand on the same footing. I think that would be fair.

25 COMMISSIONER WALLS: So if you decide to cancel
26 Section 27 (2) you should also cancel Section 26 (1)?

27 MR. SAUNDERS: That is my personal opinion. I
28 see nothing wrong with that.

29 COMMISSIONER WALLS: Have you any idea of the
30 use to which the Roman Catholic Church puts the funds it



1 receives through the earnings of its members?

2 REV. MR. WELLINGTON: I believe that after a
3 hearing at Vancouver and a presentation by the Baptists
4 Arch Bishop of the locality made a remark, according to
5 the Canadian Press, to the effect that they used the money
6 not only to support the orders, but for buildings. The
7 remark was made that after they had built their buildings
8 and paid the expenses of the orders they had little
9 left, the intimation being that they utilized the money
10 for buildings.

11 THE CHAIRMAN: That is what you suggest in here.

12 COMMISSIONER WALLS: But if they use it for the
13 relief of poverty then are we not in effect, each of us,
14 contributing our share to that and making indirectly a
15 charitable donation? In other words, if it is mostly
16 used for the relief of poverty, and it is not taxed, then
17 it is our way of not contributing towards the relief of
18 poverty which we might otherwise have to look after.

19 REV. MR. WHITCOMBE: I do not think, Mr.
20 Chairman, there would be any guarantee that it would go
21 for that purpose. After all, that is not our business.
22 We are not in control of that. But, even if we assume
23 that we say --- after all, each church administers these
24 things as a missionary objective with the view of doing
25 missionary work, so on your assumption or suggestion we
26 would be indirectly subsidizing religious missionary work,
27 which would be contrary to our consciences.

28 THE CHAIRMAN: That would be respect of one
29 faith, would it not?

30 REV. MR. WHITCOMBE: Yes, that is the point.



1 REV. MR. WELLINGTON: Mr. Chairman, in connection
2 with that I think that perhaps that point hardly hits the
3 situation. Those under vows of poverty are under vows of
4 poverty voluntarily. The subsidization of a church to
5 support people who are under vows of poverty is not
6 tantamount to relieving poverty. Actually, it is defini-
7 tely designed as an agency for propagating the religion,
8 and it is an agency for developing one particular
9 denomination. They have other ways of looking after their
10 institutions for poor people, but this is not the
11 consideration. This is exemption from taxation.

12 COMMISSIONER PERRY: I was wondering if on the
13 basis of your own arithmetic it might not be argued that
14 there is no net return from this activity. You state
15 that the people involved received benefits worth
16 \$4,000.00 or \$5,000.00 a year individually, and that the
17 average salary they earn is only \$3,000.00 a year. On
18 this proposition the Church in question is losing
19 \$20,000,000.00 or \$30,000,000.00 a year in providing these
20 teachers.

21 REV. MR. WELLINGTON: That, Mr. Chairman, is not
22 the intimation. The average person who has to look after
23 these things and pay for them out of his own salary knows
24 what they cost him, but the way people live a community
25 life in an institution the cost of living is minimal. As
26 far as the actual \$3,000.00 or more that goes to the
27 institution is concerned, it is difficult to say how much
28 actually is used, but it certainly would be a very small
29 fraction.

30 THE CHAIRMAN: Let us move on to the second



1 point, which actually in your submission is the first.
2 Have you any knowledge as to how this, in fact occurs?
3 You allege that there is an excess of donations deducted
4 in the Province of Quebec over what are the real charitable
5 contributions. You point out that the average donation
6 of an individual in the Province of Quebec is \$152.84
7 as against \$36.81 in the Province of Ontario. One wonders
8 how this comes about. Is it to be presumed that receipts
9 are issued for which no donations are made?

10 REV. MR. WELLINGTON: That is the intimation,
11 sir. The question has come out in discussion with scores
12 and scores of people. It is common knowledge amongst
13 these people that they can still obtain receipts for their
14 donations to charitable purposes, even though there are
15 no records to back up those receipts.

16 Indeed, many of them have been mighty surprised
17 that some of us and some of our people have not sought
18 receipts from their ministers on similar terms. It is
19 our contention, sir, that were Protestant ministers to
20 issue such receipts without grounds --- without book-
21 keeping --- they would be inditeable. Such a minister
22 would be guilty of fraud. This has been brought to the
23 attention of Mr. Nowlan when he was Minister of National
24 Revenue, and also to the attention of Mr. Donald Fleming.
25 The acknowledgement from the gentlemen, particularly from
26 Mr. Nowlan, was to the effect that they knew these
27 irregularities were carried on within the Province of
28 Quebec, and, of course, the figures speak for themselves.

29 THE CHAIRMAN: But I stress the fact that if it
30



1 is fraud for a Protestant clergyman to do it, then it is
2 fraud for a Roman Catholic priest or any other kind of
3 clergyman to do it.

4 REV. MR. WELLINGTON: Exactly.

5 MR. SAUNDERS: The third paragraph on page 8
6 sets out the figures, which are official figures. You
7 might have noticed that within the last couple of weeks
8 the inspectors of the National Revenue Department have
9 been doing some checking in Quebec, and this newspaper
10 clipping I have here gives the name of a minister who was
11 fined in court.

12 THE CHAIRMAN: Now, when was that?

13 MR. SAUNDERS: He was brought into court. This
14 is a news item. The man was brought into court, and this
15 gives the name of the priest of the church. He, for
16 \$7.00, had given receipts totalling \$3,025.00. I have
17 the news item here, which is dated March 20, 1961, which
18 gives figures somewhat similar to this item here. It says
19 that the Federal Government could recover an amount as
20 high as \$75,000,000.00 in the Province of Quebec as a
21 result of the examination of parish books. It says that
22 in 1956 Quebec taxpayers claimed \$34,555.00 in deductions
23 more than all the other nine provinces combined. We can
24 assume that their giving is just as generous as that of
25 the rest of Canada, but these figures show that they give
26 more than that which is listed for all the provinces,
27 and that just could not be. I do not think any citizen
28 can stand up in this country and say that that is a thing
29 that is happening.

30 I happen to know from the Roman Catholic



1 periodicals that I read that their own people do not give
2 nearly as well as the members of other denominations. I
3 remember being told with respect to Dr. Smith of the
4 People's Church in Toronto that Dr. Smith's church's
5 collection for missionary purposes was more than was given
6 in the Roman Catholic Church for the whole of Canada in
7 one year. The Roman Catholic priest who said that was
8 quoted, and it is published in a book by Dr. Smith. That
9 is his statement; it is not mine.

10 But assuming they are as good givers then this
11 is all out of line entirely. This is nothing but a
12 wholesale racket, and our presentation today is not a new
13 one. It was mentioned when the Orange Society also came
14 into the picture, and when Mr. Donald Fleming was written
15 to. Politics are involved in this, and we know that it
16 is not the easiest thing to solve.

17 Then, the suggestion is made further on that
18 the only thing to do is to change the exemption list
19 entirely, and put everybody on the same level, so that
20 nobody gets any exemptions for anything. That would apply
21 as well to medical bills. It may be that there are some
22 who pay medical bills ---

23 THE CHAIRMAN: Before we get to that, can you
24 let us have whatever documentation you have on this
25 matter by way of newspaper accounts, and so on?

26 MR. SAUNDERS: This is only a note that I have.

27 THE CHAIRMAN: I see a newspaper clipping
28 there.

29 MR. SAUNDERS: Yes, I will let you have it. This
30 is from the Toronto Telegram of about a week ago. It was



1 in all the Toronto papers.

2 THE CHAIRMAN: I did not happen to see it. We
3 should have that in our records.

4 It would seem to me that to eliminate donations
5 because it is suggested that there are abuses going on in
6 that particular area, would be rather harsh treatment on
7 the private welfare of Canada, and I suspect that the
8 people participating in private welfare would think that
9 their receipts would be greatly curtailed should that be
10 done.

11 There are many people who believe there should
12 not be private welfare; that it should all be public.
13 However, that is not the view of the country at the moment.
14 However, to change this kind of thing would be very
15 drastic treatment. I wonder if there is not a better way
16 of arriving at a solution than the discontinuance of
17 charitable donations as deductions. Have you any other
18 suggestions as to how to deal with it?

19 REV. MR. WELLINGTON: I cannot think of any-
20 thing myself that would cover the ground. It seems to me
21 that people who give generously to charitable work, such
22 as in the Red Feather Campaigns, and so on, are not giving
23 primarily with the idea of income tax exemption. I think
24 they are giving with the idea of the good they can do.

25 THE CHAIRMAN: I do not think that there is a
26 shadow of doubt but that what you say is correct. It is
27 not a matter of giving primarily for that purpose, but
28 this matter of income tax exemption must be considered.
29 There is the possibility that if you take that considera-
30 tion away, although they may not discontinue their



1 donations, they will probably reduce them.

2 REV. MR. WELLINGTON: They might, but you might
3 be surprised on the other hand. On the overall picture I
4 think there will be benefit so far as the whole economy is
5 concerned.

6 We are not financial experts at all, and we do
7 not claim to be, but it seems reasonable to assume that
8 were everybody on the same footing, and all these special
9 considerations removed, the overall assessment of income
10 tax could be substantially reduced --- that is, on the
11 overall Canada picture --- and certainly at the same time
12 we would be removing a great deal of the undercurrent of
13 objection --- the rumbling that is going on continually.

14 People are afraid to talk out, and say what
15 they think about these things. It would make for a
16 greater security in our democratic setup in the country.
17 We believe this to be so. If we keep on with this trend
18 of giving more and more exemptions and concessions to a
19 particular denomination these pressure groups are going
20 to keep on asking for more and more until finally you
21 have a church that is virtually a state church.

22 THE CHAIRMAN: I do not think that that is quite
23 the point we are on at the point, is it?

24 REV. MR. WELLINGTON: The church is there.

25 THE CHAIRMAN: We are talking about alleged
26 fraud in respect of donations to churches. I do not see
27 why that should not be met directly by requiring a
28 certificate as to the accounting in respect of every
29 charitable organization which receives a donation and
30 which is entitled to issue a receipt for purposes of



1 deductions. I presume that most Protestant churches keep books
2 and many of them have envelope systems. There is not
3 much difficulty in matching the receipts with what is in
4 the accounts, and I cannot see --- there may be a reason
5 that escapes me --- why that is not universal. I do not
6 quite understand it. If it were made a requirement that
7 the accounts be certified then surely the matter would
8 be taken care of it; would it not?

9 MR. SAUNDERS: Mr. Chairman, it would simplify
10 things if there were no deductions at all. Perhaps that
11 is not the best answer, but until you and your
12 Commission can come up with a better one I do not know of
13 another one at the moment. On page 10 of our brief we
14 point out that 80% of the taxpayers in all the other
15 provinces claimed only \$100.00. Those people are not
16 giving very much money. I do not know who they are, but
17 they are certainly not tithing. They are not supporting
18 much of anything, whether it is the church or welfare
19 organizations. Most people, if they were claiming 10%
20 of their income, would claim \$1,400.00 or \$1,500.00
21 because the salary level of the country would warrant
22 that.

23 With respect to the deductions allowed for
24 medical expenses, I might say that there are many people
25 like myself who do not qualify unless they have a long and
26 serious illness or they have a car accident. In most
27 years we have medical bills of \$200.00 or \$300.00 for
28 which no claim can be made.

29 It is our submission that if the basic exemption
30 of \$1,000.00 for a single person and \$2,000.00 for a



1 married person is altered to, say, \$2,000.00 and \$3,000.00,
2 then more people will make donations to charity. There
3 are people in the country who want to give more than they
4 do. There are many in that remaining 20% who give very
5 generously to hospitals.

6 I remember a hospital being built in Toronto
7 when I was on the Board of Control. It was Mount Sinai
8 Hospital, incidentally. A group of gentlemen put up the
9 first one million dollars. Somebody might say that they
10 had it to give, but, all the same, that is a lot of
11 money. That sort of people would give money whether
12 there was any exemption allowed or not. There are many
13 people like that, and I do not think they come into this
14 pattern. They are the people who continue to give.

15 It would simplify all the forms if there were
16 no exemptions for anything. It would be better if the
17 Act merely stated that if you are drawing a salary you
18 get an exemption of \$3,000.00, and you pay income tax on
19 the balance.

20 COMMISSIONER WALLS: I would like to enlarge
21 on what the Chairman said. It would seem to me that you
22 could demand that an official church receipt be given,
23 which receipt must be in line with the records of the
24 church. That would readily make the thing available to
25 checking by assessors. In other words, if there were an
26 official receipt based on the records in the church's
27 books, irrespective of the denomination, I would question
28 that both records would be crooked, and that could be
29 quite readily checked by the assessor.

30 MR. SAUNDERS: To follow up that suggestion,



1 would it be possible for the Income Tax Department to
2 supply charitable organizations and the churches with
3 forms such as I have to submit at the end of the year.
4 I fill out a form, and a duplicate of it goes in to the
5 Income Tax Department. The other is given to my employee.
6 The Department then knows what salary he has received.
7 If there was something of that nature, then the people
8 who made donations would get an official receipt, from
9 which the Department would have the stub.

10 THE CHAIRMAN: I think every charitable
11 organization could be certified to issue receipts, but it
12 could be that such certification would only be given
13 upon the Department's being satisfied of that organization's
14 ability to keep books properly. The receipts could then
15 be matched with the books. If such a system was abused,
16 then the certificate could be withdrawn. I would think
17 that that would solve the matter.

18 REV. MR. WELLINGTON: One of the big problems
19 in relation to the whole thing is just this, that no
20 matter what system you set up to check up on such
21 questions there is always the fear of boycott, and all
22 the rest of it. It is very difficult to enforce anything
23 of this sort.

24 I remember reading in one of the papers not too
25 long ago, and it seemed to be quite official, that they
26 were discussing this sort of thing and investigating it
27 in Quebec --- that is, Mr. Nowlan's department was ---
28 and they had to withdraw. There was a hue and cry of
29 persecution. It was said that the priests were being
30 accused of being dishonest. They did not like the



1 implication, whether it was true or not. When the pressure
2 came on, they just withdrew from it. That is where the
3 problem is.

4 COMMISSIONER MILNE: Mr. Chairman, does it state
5 in that clipping whether these priests were from Ontario
6 or Quebec?

7 MR. SAUNDERS: It was in Montreal. That clipping
8 came from the Toronto Telegram of about a week ago. The
9 name of the church is given.

10 COMMISSIONER GRANT: In arriving at the amount
11 contributed to a church by a member would you have any
12 views as to the difference you might find in a Roman
13 Catholic community as against a Protestant community?
14 Have you any records about the much higher attendance
15 record that you might find on a per capita basis in a
16 given parish? It would seem to me that the Roman Catholic
17 attendance would be much higher and, therefore, there
18 would be a more constant contribution --- on a lower scale
19 but over a larger number of members or adherents --- than
20 there would be in a Protestant parish where you would not
21 get that same high percentage of attendance. Do you have
22 any views on that?

23 REV. MR. WHITCOMBE: That would be very difficult
24 to prove one way or the other. Most of us Protestants
25 assume that the other church always has a better atten-
26 dance than ours, but, frankly, I doubt it.

27 COMMISSIONER GRANT: I am going on the premise
28 that it happens.

29 REV. MR. WHITCOMBE: I know that most of us
30 assume that, but I doubt it.



1 COMMISSIONER GRANT: If my premise is wrong,
2 then we can dismiss the argument.

3 MR. SAUNDERS: The point is, Mr. Chairman, that
4 these figures that show up in Quebec did not always show
5 up in that way. There was a change in 1956. Prior to
6 that I think you will find that the income tax exemptions
7 in Quebec were not half of those shown for Ontario.

8 THE CHAIRMAN: I did not know that, Mr. Saunders.

9 MR. SAUNDERS: It was on that basis that a
10 Presbyterian clergyman in Toronto presented a brief for
11 a submission --- I forget his name ---

12 REV. MR. WHITCOMBE: It was Miller.

13 MR. SAUNDERS: --- to the then government of
14 the day. They said: "Something has happened in the
15 meantime, and we are not doing as well", and this thing
16 changed overnight.

17 THE CHAIRMAN: What was the date of the change?

18 MR. SAUNDERS: I do not know the date. That
19 little brief went across the country. It must be seven
20 or eight years since he wrote that.

21 REV. MR. WELLINGTON: We can send you a copy,
22 because we have some on file. Yes, the thing jumped right
23 up from one year to the other until it reached that peak
24 where some \$122,000,000.00 was claimed in Quebec for
25 charitable donations as against some \$87,000,000.00 for
26 all the rest of Canada combined. That was during the
27 year 1956 or 1957. The thing is quite fantastic.

28 THE CHAIRMAN: Is there anything else?

29 COMMISSIONER PERRY: I would like to comment on
30 the arithmetic of your proposal for doubling the ordinary



1 allowances. I think you are quite out of line with
2 respect to the loss of revenue, and no matter how great
3 this might be. This could easily cost \$700,000,000.00 or
4 \$800,000,000.00 of tax revenue. You must realize how
5 quickly the revenue disappears once you start increasing
6 the basic exemption. If you double the basic exemptions,
7 then you just about pull the plug out from under the
8 personal income tax.

9 REV. MR. WELLINGTON: We do not claim to be
10 financial experts, but it is our suggestion that possibly
11 the deletion of the exemption clauses for charitable
12 purposes, and so on, could be compensated for by an
13 increase in the basic exemptions to some extent, but to
14 whatever extent could be worked out.

15 THE CHAIRMAN: As to Item 3 I have always been
16 a little curious as to what really got into a clergyman's
17 income tax return. I assume that clergymen are pretty
18 conscientious people and that they do their best, but I
19 have often wondered whether they have confused income and
20 gifts in any way.

21 You say that the clergymen in the Protestant
22 denominations in reporting their income include gratuities
23 from marriages, baptisms, funerals, and so on. I believe
24 it is customary in the Anglican Church for there to be
25 one collection per year, probably at Christmas --- it may
26 be customary in all Protestant denominations ---
27 which is given to the clergyman rather than being directed
28 to him through the usual coffers of the church. I have
29 often wondered whether he considered that to be income.
30 Do you know?



1 REV. MR. WELLINGTON: How many Christmas
2 offerings do you get, Mr. Whitcombe?

3 REV. MR. WHITCOMBE: We do not do that in my
4 church.

5 REV. MR. WELLINGTON: Would it be in order to
6 ask you a question, Mr. Chairman? To your knowledge, do
7 priests pay income tax?

8 THE CHAIRMAN: You are asking me if I know
9 whether they do or do not. I have no knowledge.

10 REV. MR. WELLINGTON: I have quite a lot of
11 contact with former priests connected with Christ's
12 Mission in the United States, and other places. I have
13 been around them quite a bit, and they tell me that even
14 a priest of a small parish would get a minimum of \$6,000.00
15 from one source or another. The way in which they avoid
16 the income tax question evidently seems to be that they
17 report an amount as salary --- official salary --- which
18 is small enough to be untaxable, but the major portion of
19 their income is derived from these gratuities and which
20 we have listed in the brief.

21 Now, where do we get off? What is the score
22 here? What must be reported as income? Should Protestant
23 ministers try to connive to reduce their income down to
24 an untaxable level? I imagine that could be done too,
25 but is it honest, or is it right?

26 THE CHAIRMAN: No, it is completely dishonest.
27 I think that anything one receives in the performance of
28 his chosen task is income. Irrespective of whether it
29 comes as alleged gratuities, or however it comes about,
30 it seems to me that it comes about because of his carrying



1 out his profession, and as such should be included as
2 income.

3 REV. MR. WELLINGTON: To our knowledge we do not
4 know of any priests who pay income tax.

5 THE CHAIRMAN: You could hardly have had the
6 opportunity of making a very good survey.

7 REV. MR. WELLINGTON: No, not a complete survey
8 by any means, but we have never received any satisfactory
9 answer from the authorities to whom the question has been
10 specifically addressed.

11 MR. ~~SMUNDERS~~ SMUNDERS: A few former priests in this
12 country have told us that they did not pay income tax, and
13 that so far as they knew no other priest did. Other than
14 that, we have no information.

15 COMMISSIONER PERRY: What is the official
16 attitude of the Protestant Church towards these gratuities?
17 They must have some official recognition in their own
18 thinking. Are they regarded as part of the remuneration
19 of a post?

20 REV. MR. WHITCOMBE: I do not know of any
21 rule in any Protestant Church of that, but I am quite sure
22 that most Protestant ministers report them as income.
23 I know that I have.

24 COMMISSIONER PERRY: I would think that the tax
25 law would be fairly clear on it, but what I am getting at
26 is whether your own attitude is that these should be
27 taken into account.

28 REV. MR. WHITCOMBE: Actually, I think most
29 Protestant ministers would have very little to report,
30 except, perhaps the pastor of a very large downtown church



1 where people are always dropping in to be married. For
2 a wedding you might get \$5.00, and for a funeral you might
3 get something, but usually it is a very small amount. So
4 far as I know no denomination has a ruling about it.

5 REV. MR. WELLINGTON: On the other hand, Mr.
6 Chairman, it is a normal thing to find in the Roman
7 Catholic clergy that there are specific fees. I have
8 known of some that could not have a funeral without
9 paying \$25.00. There is a specific fee he sets for it.
10 It is not even a gratuity --- it is a fee.

11 THE CHAIRMAN: I do not think the phraseology
12 has much to do with it. It should be included in income
13 for taxation purposes, whatever you call it.

14 REV. MR. WELLINGTON: It would be very difficult,
15 Mr. Chairman, to compel a clergyman to report each and
16 every item that comes to him as a gratuity. Certainly
17 there would be a tremendous hue and cry if much pressure
18 was exerted to have that done and, therefore, that carries
19 us back to this other issue that the only satisfactory way
20 to cover this situation seems to be the elimination of
21 these exemptions for that purpose.

22 THE CHAIRMAN: I do not think we have any more
23 questions. We thank you very much indeed for your
24 attendance, and for bringing this brief before us today.
25 We will certainly take these facts into consideration in
26 our deliberations. Your submission has been very clear.
27 We understand the problem.

28 MR. SAUNDERS: I should like to thank you, Mr.
29 Chairman, and members of the Commission.

30 THE CHAIRMAN: We will take a break of ten
minutes at this time.



Ottawa, Ontario
Tuesday, October 8, 1963

---Upon commencing at 10:30 a.m.

SUBMISSION OF
CANADIAN AIR LINE PILOTS ASSOCIATION

APPEARANCES:

A.D. McALPINE, Q.C.

W. McCREA

W.R. MARTYN

THE SECRETARY: Mr. Chairman, the second submission this morning is being presented by the Canadian Air Line Pilots Association. Mr. A.D. McAlpine, Q.C., is here this morning representing the Association, and with him are two members whom he will introduce. Mr. McAlpine will speak to the brief, which I enter into the record now as Exhibit 215.

---EXHIBIT NO. 215: Brief of the Canadian Air Line Pilots Association.

THE CHAIRMAN: Good morning gentlemen. You come forward with this submission and you are really requesting, I take it, that we should deal with two matters. The Air Line Pilots Association is a national organization, of course. Would you care to tell us a little about how it is organized?

MR. McALPINE: Mr. Chairman, perhaps first I might explain that in our brief we mention that Capt. Foy would be present at the hearing here today. However,



1 he was scheduled on a trip to Paris for TCA. Therefore,
2 we have in his place here Mr. W. McCrea.

3 Mr. McCrea was formerly employed as a captain
4 by Trans Canada Airlines. Mr. McCrea is 47 years of age
5 and is placed on leave of absence because of ill health.

6 Before commenting on the memorandum of the
7 Association, I should like to let Mr. McCrea describe
8 his own experience. I think that will give you an
9 example, and perhaps it would correct the impression
10 which sometimes exists that airline pilots are very
11 handsomely compensated and can afford the type of expense
12 which you are being asked to consider. May I do that?

13 THE CHAIRMAN: Yes, you may proceed in any way
14 you like. We would be glad to hear Mr. McCrea.

15 MR. MCCREA: Mr. Chairman, I will come to the
16 question as rapidly as possible. I should like you to
17 understand what happens in the aviation industry. We
18 have had a lot of people subject to ill health within the
19 service and a great number drop out voluntarily. Others
20 just cannot keep up with the jet requirements.

21 As before myself, in my own particular case,
22 I went into the Air Force in 1940 when I had just come
23 out of the University of British Columbia with the degree
24 of Bachelor of Commerce. I spent five years then in the
25 Air Force and after that I went to TCA. I have flown
26 with TCA for eighteen years, which is quite a long
27 period. One spends a good portion of the time as a co-
28 pilot, possibly about six years, as it was in my case.
29 One may even spend longer than that. However, TCA had
30 800 pilots some time ago but it is down to 600 now.



1 That is due to the larger and faster aircraft, which
2 require fewer people to do an even better job. This is
3 not a criticism of TCA or of the industry --- it is just
4 a case of progress.

5 In my own case and in most other cases you
6 have to have something lined up so as to cover the time
7 when you cannot fly any more. You think you are
8 extremely well and in good health. In my own case I
9 thought I was in good health and it only emerged in this
10 year that it was otherwise. I had just completed DC-8
11 training. It is a very wonderful life and people say it
12 is very well paid, relatively to ordinary Canadian
13 companies. However, at the end of the DC-8 course I was
14 found to have a heart condition. That is a technical
15 thing, there is a short-circuit in the heart and although
16 one may not know that it is there and may not know
17 anything about it, one is not able to fly with it. I
18 went to the Mayo Clinic to see if I could fly even as an
19 American pilot. They cheerfully found that I had glaucoma.
20 However, it was good to find the glaucoma in the early
21 stages, because with drops one can carry on. The only
22 difficulty is that you cannot fly, as one would have
23 impaired vision.

24 There again we consider ourselves a little
25 different in that way, as we are chopped off the ordinary
26 employment at an early age. In my case it was at age
27 47. Up to that time I had been flying between Bermuda
28 and Nassau, and have spent seven years on those runs.
29 One has to be prepared for this change-over. We feel
30 that there are a number of expenses which pilots feel.



1 Many people have these costs.

2 You have referred in previous decisions and
3 tax authorities to its being a case of a man's joints,
4 as to whether he chooses to use his shoe leather or to
5 go through by bus or to travel by private car. We will
6 come on later to cover those points. I would like to
7 explain now that we are a little different in this
8 regard.

9 There is a certain conception in regard to air
10 line pilots, and this is accented by the press I think.
11 They take the top salary of the top man and it is
12 considered that he starts at age 20 and finishes at age
13 50 and one says he is very fortunate. In actual fact
14 however, that is not the case at all. We drop out at a
15 much earlier age. My own case is not an unusual one.
16 We had a man named Rogers who was a captain based at
17 Montreal. He was found to have an impaired vision in that
18 he had cataracts. They were of a type which could be
19 operated on and he will wear contact lenses and carry on
20 in a normal manner. However, he cannot fly.

21 We have another man who was found to have
22 a very slight suggestion of tuberculosis. He was given
23 treatment for tuberculosis, but perhaps in one case of
24 100,000 it might cause slight dizziness and as that could
25 not be allowed he was grounded. At the moment ~~also~~
26 we have five heart conditions. These are all of a type
27 which would mean nothing to the ordinary person. However,
28 they were grounded. The company cannot risk the possibi-
29 lity of a crash and these people end up in being
30 unemployed. It would not do to have a man at the controls



1 and take that risk.

2 I have just been giving you the background, to
3 show that this job is not as well paid over a life span
4 as our good friends in the Press would have people
5 believe.

6 THE CHAIRMAN: What are the pension arrange-
7 ments?

8 MR. McCREA: In my particular case and in the
9 majority you have to be fifteen years in the service in
10 order to get a pension. This is fair enough and I am
11 one of the lucky ones. I am eighteen years there and
12 will get possibly \$150.00 a month on pension from our
13 company. That is a very handy condition. They have
14 decided and I am grounded medically. We also have
15 insurance with Lloyd's of London, we have insured
16 licences, we have our own self-operated mutual aid plan
17 through the Association, which gives us two years' pay.
18 But this is our own self-operated plan and we pay the
19 tax for it of course. That is a strictly voluntary thing
20 and it is not compulsory to be a member, but 45% of them
21 are members. We are also a bargaining agent for the
22 pilots, whether they are CPA, TCA, Pacific Western Air-
23 lines or Transair.

24 THE CHAIRMAN: You pay dues?

25 MR. McCREA: We pay dues, on which we are
26 allowed a reduction for union dues. We also have a full-
27 time man employed, Mr. Cleve Kidd, who used to be with
28 the Steelworkers and appeared on various Commissions.
29 He is a full-time employee with us. There are also
30 people like Capt. Foy, who is unable to be here today,



1 as he is in Paris. He was past president, I am a vice-
2 president, and a director of the organization. We have
3 a full-time officer in Montreal at the Timmins Aviation
4 Building.

5 THE CHAIRMAN: Thank you, Mr. McCrea. Is there
6 anything further, Mr. McAlpine?

7 MR. McALPINE: I assume there will be an
8 opportunity for me to review the submission. I do not
9 propose to read it in detail. We should like to endeavour
10 this morning to amplify it, with the service of Mr.
11 McCrea and Mr. Martyn, both of whom are available if
12 there is any question which the members of the Commission
13 wish to ask.

14 My remarks will commence at page 4 of the
15 submission.

16 I should draw to your attention in emphasis
17 that the Association's members and pilots are treated as
18 employees. The pilots are treated as employees by the
19 Income Tax Department and accordingly are subject to the
20 restrictions in Section 5 of The Income Tax Act, of which
21 there is a copy in the Appendix.

22 Section 5 places very severe limits on the
23 deductions available to employees. It is the belief of
24 the Association that these restrictions are harder in
25 this particular case. There is no question as to whether
26 the pilots were self-employed persons. If they were,
27 they would be entitled to deduct expenses in travelling
28 from home to the airport.

29 There is one case, which is mentioned in the
30 Appendix. It is a test case which we had before the



1 Tax Appeal Board in Ottawa. It was suggested that one
2 might in some cases be able to substantiate successfully
3 in claiming to deduct expenses in going from home to the
4 place one has to carry out one's duties. However, I
5 think that in most cases the person is not allowed the
6 expense of travelling from home to work.

7 We do not necessarily associate ourselves with
8 some of the other submissions which have been made. I
9 have in mind the submission made to the Commission by the
10 United Electrical Workers, which discussed the question
11 of expenses in travelling from home to place of employ-
12 ment.

13 I think our position is unique, because of these
14 special circumstances and we think we are entitled under
15 the Act to be allowed for travelling expenses.

16 THE CHAIRMAN: You mean you need relief in
17 regard to travelling expenses?

18 MR. McALPINE: When we come to the question of
19 uniforms, it is a question of personal use or otherwise.
20 I think we are no different to other persons who have
21 expenses to incur on uniforms. I am thinking of people
22 who are employed, say, in hospitals. I will ask Mr.
23 Martyn and Mr. McCrea to deal now with the terms of
24 employment and how employment operates with an airline.

25 MR. MCCREA: There are two groups of people who
26 have set hours per month. There was a verdict or
27 decision on a previous appeal in this matter. There are
28 what are known as the blockholders who have regular hours
29 on paper. Mr. Martyn is representing those people. They
30 are the regular people. Then there are also the reserve



1 pilots. We have everything worked out for 85 hours per
2 month, which is your maximum which you can fly in a
3 month. That sounds a very pleasant life. There is five
4 hours for each set of flights and they are all paired
5 off and set up in the form of a schedule. This schedule
6 I have in my hand (Indicating) represents Montreal. I
7 will leave this copy with you. It represents the month's
8 flying for that base. It is divided up in the manner in
9 which each pilot bids, on his seniority. He picks the
10 block of flying he wishes, just like used to occur in
11 the railroads and cars back in the history of transporta-
12 tion. It is a matter of seniority. There is one flight,
13 say, from Montreal to Jamaica, going down on Monday and
14 coming home again, going down on Wednesday and coming
15 home again. That is his life.

16 THE CHAIRMAN: Yes, I flew with him once and
17 he told me he had the best job in Canada.

18 MR. McCREA: He is one of the old bush pilots
19 in the company before the war and quite deservedly gets
20 the best of everything.

21 Going down in the list of blockholders, there
22 is this man Foy who goes every Tuesday to France and is
23 home every Friday. That is his life. He travels around
24 Europe on charter service while he is over there. That
25 may sound pleasant, but you get very tired of it and if
26 you have a wife at home, she gets tired of it too. I
27 spent three days in Jamaica, going down on Monday and
28 coming home on Friday. Therefore the fact that you may
29 be working 85 hours does not mean anything. It does not
30 mean that you are free the rest of the time. The block-



1 holder is quite free. It is the reserve man who really
2 deserves the greater consideration.

3 We are still on call. The pilots accept the
4 life as it is, with its complete irregularity, because of
5 the nature of the transportation business and I think it
6 is the same with anyone in the railroad or things like
7 that.

8 I have been called at three a.m. and told that
9 the regular flight which I was going to take is being
10 taken by someone else. Then they say: "You are the only
11 man we can get, there is an airplane in Bermuda with
12 only three engines working, you will have to take a
13 plane there, it is ready, so you can get going." You
14 have to be ready and go. You may be critical of your
15 company, but you must remember that there are 100 people
16 over there and they are more critical of the company
17 than you can be. These things are something you have
18 to face up to. There are the mechanical troubles, there
19 is the weather, there is the freezing drizzle, where
20 your airplane gets as cold as ice. You may have to
21 take off for Montreal and go on to Toronto or Winnipeg
22 and you may have to land at Toronto or Winnipeg or
23 Buffalo.

24 MR. McALPINE: Might I interject here to make
25 a point which Mr. McCrea is making. Each month all
26 the pilots fill out these documents and the pilot asks
27 for the flight that he wants. The pilot is guaranteed
28 pay for 60 hours flying time per month. Some of them
29 may make up to 85 hours pay per month if they arrange
30 the flights properly. However, the pilot must have a



1 certain amount of rest period between each flight. This
2 is prescribed by his pilot contract and the airline.

3 There may be a pilot at the beginning of the month who
4 wants to make the maximum income. He is paid on an hourly
5 basis, according to a formula which varies with the speed
6 of the aircraft and the nature of the aircraft. A pilot
7 who is flying a DC-8 gets a higher hourly basis than a
8 pilot who is flying a Vanguard or a Viscount. Then you
9 take the senior captains, he can bid for his block of
10 flights for the whole month. He receives a block
11 assignment. He will try to arrange his block so that
12 he can have some spare time in the period. The reserve
13 pilot has nothing but a reserve in his block. A flight
14 officer will bid for a block of flights. He also bids
15 for reserves. He will not get a block, because he has
16 not enough seniority. Then he will be on reserve the
17 whole month. The more senior captain will have a block
18 of flights and the impression we are trying to correct is
19 that the man who has a block of flights knows he has to
20 get to Malton Airport at two o'clock. At the end of the
21 week he has to take a flight to Montreal. He does not
22 know that, because his flights are varying all the time,
23 because of the weather conditions.

24 Also, if he has spare time he can place himself
25 voluntarily on reserve in order to pick up some extra
26 flying time. Therefore, a blockholder has a more
27 systematic life than a reserve pilot. However, he has
28 two contingencies. He has the weather to deal with and
29 mechanical delays and he has the other features that are
30 mentioned in the brief as requiring consideration in the



1 expenses of getting to the airport.

2 MR. McCREA: To sum up this matter, there are
3 these sudden trips to the airport and also the regular
4 trips, but there is no regular transportation available.
5 It means the cost of a cab or using one's own car.

6 If you consider the matter of a car, it can
7 readily be recognized that one car in a family is a
8 necessity in this modern life. A pilot considers two
9 cars as a necessity. Take the case of the man who is
10 in Paris now. Really, for that week, his car is at the
11 airport. In a number of cases he will go to the airport
12 and back, but then he may not get back to Toronto and he
13 may end up in Buffalo. The passengers will be able to
14 get home by bus and so on and the airport plan is put
15 to work. A DC-8 is worth six men and we are incidental
16 to that flight. The flights have to be kept rolling and
17 we carry on to Vancouver or down to Tampa. There is
18 simply not any bus service. In the case of Edmonton,
19 it is 22 miles to the airport. In the case of Montreal
20 there is also a long journey. We have to go by car.
21 It means our own car or getting a cab. There is simply
22 no alternative.

23 THE CHAIRMAN: Before leaving that matter, I
24 should like to ask this question. Is each pilot guaran-
25 teed a minimum salary based upon a certain number of
26 flight hours?

27 MR. McCREA: Yes, sixty hours. He must be
28 available.

29 MR. McALPINE: He will be paid 45 hours.

30 THE CHAIRMAN: He always gets sixty hours' pay



1 whether he is on reserve or not?

2 MR. McCREA: You will have noticed that in the
3 past few days CPA have been laying off 25 pilots. The
4 company very naturally lays off pilots as they cannot be
5 paid for just sitting down. They must fly 60 hours.

6 THE CHAIRMAN: He can, if he is called upon.
7 He can extend that 60 to 85 and then he gets extra pay
8 for the 25.

9 MR. McALPINE: The companies are usually more
10 restricted than the Department of Transport requires.
11 I think the Department of Transport regulations call for
12 120 hours maximum flying time per month, but the
13 company usually has a smaller number of hours. It is
14 very difficult for the pilot to get this ten hours rest
15 between flights and make up his 85 hours per month.

16 COMMISSIONER WALLS: He is actually allowed
17 11½ hours. You are just allowing for travelling time
18 when you cut it down to 10, are you?

19 MR. McALPINE: Mr. Martyn can explain that in
20 more detail. We are counting 15 minutes on duty after
21 the aircraft lands and one hour on duty before the air-
22 craft leaves. Mr. Martyn may describe some of the
23 problems which they have in the reserve.

24 MR. MARTYN: I was going to describe how the
25 reserve works. Each pilot is required to spend a period
26 on reserve, five days a week, 24 hours a day, on which he
27 is on call at the airport during that time. These are
28 48-hour periods when he is on call and there are two
29 additional days.

30 A pilot may stand at his telephone at home or



1 may be required to stand by to cover a flight at the
2 airport. For example, if the flight out of New York is
3 late, the crew may not be available to take the second
4 trip to New York. Then he would be called out and the
5 flight would be planned and all ready to go and this other
6 crew would not make it.

7 COMMISSIONER WALLS: Could I interject a
8 question. You say he has to stand by. Is it not a fact
9 that during those five days you can go freely wherever
10 you want to, as long as you leave a calling number?

11 MR. MARTYN: That is right. We can go around
12 the city. However, we must have a calling number. You
13 have to be near a telephone. TCA must have a number where
14 they can reach us. Then also it must be within a certain
15 radius, about half an hour away from the airport. It
16 may be up to 45 minutes. However, it means you cannot
17 spend your reserve up on Lake Simcoe. You must be within
18 a reasonable distance of the airport. For the reserve
19 pilot more especially than for the blockholder, it is
20 mandatory for a pilot to have two cars.

21 Let me take an example of this: I would like
22 to describe an example where a reserve pilot is on call
23 and he has only one car. The car is sitting in the
24 garage and he may not be called out. Now, the car is
25 generally accepted as a family car. However, in this
26 case the family will have no access whatsoever to this
27 car. Should he allow his wife to go shopping for an
28 hour, that would be just the time that TCA would call and
29 say: "We want you to go to Winnipeg in forty minutes."

30 However, he is not required to stand on this



1 sort of basis throughout this whole period. If it is
2 a little quiet at the airport, there may be three or four
3 props there and he could be released for two or three
4 hours for family needs and he could go to a show or play
5 a round of golf.

6 MR. McALPINE: He might have to be called in.
7 It would depend on the number of reserve pilots available.
8 There is a flight schedule crew at each airport and they
9 keep a list of reserve pilots and of the flights they are
10 likely to need. During one of these five-day week
11 periods a pilot may be on 24 hour a day call. One of
12 them came to visit me at the office. In that case he
13 will give my number. Then he will call from my number
14 and he will have to call the flight schedule crew at
15 Malton Airport and get permission to be away. He can
16 get permission if there are enough reserve pilots, but
17 if he is on reserve he will have to stand by.

18 MR. MARTYN: I mentioned that I could be called
19 up to take a flight in forty minutes. It does not sound
20 a long time. One is required to be at the airport an
21 hour before, in order to do the flight planning and the
22 checking of the aircraft. This example is not an
23 isolated case. This is what happens. I cannot say that
24 it happens more than once or twice a month, but it may
25 be on a fairly regular basis. I have here some examples
26 of when this situation would happen.

27 A pilot may be taken suddenly ill in the
28 morning and when he wakes up supposing he feels a cold
29 he cannot fly, because it affects his ears and anything
30 else. Therefore, if the blockholder wakes up with a cold



1 on a two hour call and suddenly finds himself ill, he has
2 to book off sick. Then I can be required to get to the
3 airport in a period of an hour or an hour and a half at
4 the most, and as soon as possible at the least.

5 As Capt. McCrea described, when there was
6 freezing last year we got quite a lot of that. Sometimes
7 an aircraft could not land at Toronto and could take off
8 at Toronto, if the aircraft were preheated in the hangar.
9 This is a case where one could be called out to get to
10 the airport.

11 MR. McALPINE: Could I interject there. Under
12 the TCA system, if a pilot is qualified to fly in a
13 Vanguard aircraft, he cannot at the same time fly any
14 other aircraft. You can have a situation where a Vanguard
15 aircraft is supposed to travel from Montreal to Toronto
16 and then to Vancouver. Because of mechanical difficulties
17 or weather conditions somewhere between Montreal and
18 Toronto, the pilot radios in and says he cannot land at
19 Toronto. That particular aircraft might stop at Ottawa.
20 There will be a number of passengers at Malton airport
21 waiting for this plane, to proceed on its way west. TCA
22 will get another Vanguard ready. The pilot who is
23 supposed to be going on is, of course, in Ottawa. So
24 they will call on a reserve pilot and ask him to hurry to
25 Malton Airport. If you count an hour flying time between
26 Montreal and Toronto, it means that you get forty minutes
27 from the time the pilot has reported to Malton. He
28 cannot go on with his plane. The reserve has to get to
29 Malton in a hurry to get the plane there off. With the
30 connecting schedule which TCA has for its various flights,



1 they try to get off on time. In most cases, the pilot
2 would have to get to Malton Airport at very short notice.
3 Frequently he will not get in before his full hour for
4 flight time to prepare.

5 MR. MARTYN: In the case where I have not got
6 more than forty minutes to get to the airport, to deal
7 with the flight plan and to check with the weather, to
8 have things put in the aircraft and deal with the
9 preliminaries and the checkup, and arrive in the cab and
10 get ready to depart. I can quote a few examples. I think
11 I have described enough to put the point across.

12 THE CHAIRMAN: I think we understand the point
13 and, if we do not, the question will come up. I am
14 sure we will have questions to put to you.

15 MR. McALPINE: There is one point I should like
16 to make in regard to transport. I am speaking of Toronto,
17 because I am more familiar with Toronto. If you have a
18 pilot on an early morning flight, say, the 7:10 to Ottawa,
19 there would not be a regular airport bus leaving from
20 the Royal York Hotel in time to get into Malton Airport
21 an hour before flight time. The bus would leave at
22 six o'clock and get to Malton at 6:40, which would be
23 half an hour before flight time. The pilot could not
24 take that bus and there would not be an earlier bus.
25 Buses do not run for each flight. Therefore, in that
26 circumstance, the pilot must incur the extra expense of
27 taking a cab out or taking his own motor vehicle out.

28 We will comment on the expenses incurred on
29 the pilots coming out much more reasonably to take his
30 own car than it is to take a cab out to Malton. That is



1 the only way they can get there.

2 MR. MARTYN: Take a forty-minutes call. This
3 is what could happen: In those cases you do not even have
4 time to call a cab. You must have a car. If it is a
5 forty-minutes call, it takes you five minutes to get
6 dressed and then you have 35 minutes to get there. That
7 is the minimum time it takes to get to the cockpit, to
8 check on the aircraft; so even if I call a cab it could
9 not get to my house, much less get to the airport.

10 COMMISSIONER WALLS: There seems to be one
11 question which may have a bearing in all this. Once you
12 are employed at your headquarters of employment in a
13 certain city, are you moved to any great extent to be
14 located in other places?

15 MR. MARTYN: Generally, no. You can be living
16 in Montreal. It is a very complicated procedure, but
17 generally people do not like to stay in one place.

18 THE CHAIRMAN: Does the company provide any
19 transportation to airports in buses?

20 MR. MARTYN: If I came to Ottawa and was going
21 to be here for ten or twelve hours, TCA would provide me
22 with hotel and meals and transportation from the airport
23 to the hotel.

24 THE CHAIRMAN: In the normal manner, that is
25 by a bus, I presume?

26 MR. MARTYN: No, the usual travel is by taxi,
27 when we are out like that.

28 MR. McALPINE: That would not be at the home
29 base. Mr. Martyn's case is that if he is in Ottawa TCA
30 will look after his expenses the same as if Mr. Martyn



1 flies to Montreal and stays in Montreal overnight, TCA
2 bus takes him downtown and his expenses are the normal
3 expenses and are reimbursed in the normal way.

4 MR. MARTYN: When I do a run of a series of
5 flights and complete them, I am given eleven hours and
6 fifteen minutes to prepare for the next one. Of that
7 time, the fifteen minutes I am on duty, ~~with~~ time to
8 shut down the aircraft and handle all the paperwork and
9 get it laid out and pass it in. Then there is the other
10 hour which is the hour I am to report prior to departure,
11 to deal with flight time, checking weather, and checking
12 the aircraft. That means I am given ten hours free and
13 clear. That means ten hours to rest up for the next
14 series of flights. Of this time I am supposed to spend
15 eight hours which are needed for sleep; then there are
16 the other two hours for eating and for travelling to and
17 from the airport. Other than taxi or car there is no
18 other way to get that eight hours sleep out of the ten
19 hours, if you live a normal distance from the airport.

20 COMMISSIONER WALLS: That is one of the reasons
21 why I asked the previous question. If you are located in
22 one area and you take up this as your occupation, is
23 there any reason why a pilot has not got the option of
24 living close to the airport, just the same as many other
25 citizens have to pick out a domicile close to their place
26 of employment?

27 MR. MARTYN: Yes, I think you will concede that
28 living near an airport is not a very favourable place to
29 live, because of the noise factor.

30 THE CHAIRMAN: It depends on how close you live



1 to it.

2 MR. MARTYN: I think that outside three or
3 four miles, most pilots would consider it. I would not
4 want to live within four or five miles.

5 THE CHAIRMAN: Let us put four or five miles as
6 a reasonable distance and let us then see what is the
7 reasonable way to get there, whether it is necessary to
8 have a second car sitting in the garage in order to do it
9 or use taxis. In my opinion a second car is a very nice
10 thing to have, but to my way of thinking, it compares
11 rather unfavourably with public transportation such as
12 taxis. In my own family we do not have a second car and
13 my wife uses taxis, but she, no matter how much shopping
14 she does, she could not possibly spend as much money on
15 taxis as would be spent on a second car. Similarly,
16 living four or five miles from an airport, one would be
17 away ahead using taxis rather than a second car.

18 MR. MARTYN: But the way we are claiming, it
19 works out that the car is the cheapest method.

20 MR. McALPINE: Mr. Martyn lives 27 miles and
21 if one takes ten cents a mile and 101 trips, that is
22 \$270.00. The round trip is 27 miles.

23 COMMISSIONER WALLS: That would be thirteen and
24 a half miles from the airport. 27 miles is the round
25 trip.

26 MR. McALPINE: Yes. We do not suggest claiming
27 depreciation on the car, the after purchase expenses, the
28 insurance and gas and so on. I do not know how it would
29 be apportioned between personal and business use. If
30 we have a wife taking a taxi and using gas at home, I



1 suppose it would increase the percentage of the business
2 use of the car. It may be 100% business use, but if we
3 take depreciation on the motor vehicle and insurance and
4 so on, it would add up to a much higher figure than
5 \$270.00.

6 THE CHAIRMAN: I feel that \$270.00 does not
7 take care of the full cost of a second car. It would be
8 more than that. If that were all the car was used for
9 and one were entitled to recover ten cents a mile, I
10 think it would be a very stupid thing to buy a car. I
11 would have the thought one would take a very heavy
12 personal loss. It would be much more economical to use
13 a taxi, even if it did cost \$500.00, because a second
14 car would cost more than \$500.00 a year.

15 MR. McALPINE: I think our claim would definitely
16 be even larger, if we claimed a cab instead of the
17 private vehicle. If we claimed a cab, it would probably
18 be five dollars a trip, so you would have had \$500.00,
19 which is much more than the claim.

20 Our position was that the Association wanted to
21 be reasonable and not try to make an excessive claim.
22 The Association was taking the cheapest and most efficient
23 way. If you take a man who is close to Malton Airport,
24 that would be an example to take. Mr. Martyn lived in
25 Bathurst at the time of the appeal. Take a man at
26 Etobicoke. Take Capt. McCrea, for example. If he wants
27 to use public transportation to get to the aircraft, he
28 has to go all the way down to the Royal York to get on
29 a bus. It is just hopeless. If you come in from a
30 flight at three o'clock in the morning you cannot get an



1 airport bus, to start with. I know you might get a
2 limousine to take you home at three o'clock in the
3 morning, but think of trying to get to the airport. This
4 is the trouble. If you try to get a cab to come to your
5 house and take you to the airport at that time in the
6 morning. You could not do it as a reserve pilot and get
7 down in time. If you have to phone for a car at three
8 o'clock in the morning and have it sent out to Etobicoke
9 to take a pilot to the airport, he would have to wait
10 half an hour for the cab.

11 MR. McCREA: Mr. Martyn is only six years with
12 the company, in comparison with my eighteen years and
13 probably he is not faced with this particular problem.
14 You asked a question as to whether we moved around the
15 country. It is desirable to get to Montreal and Toronto,
16 but you have to go wherever you are sent. I was based
17 in Winnipeg in the initial period. After my turn came
18 for promotion I went to Lethbridge for two years and when
19 the base was closed down there I went to Calgary and was
20 there for one year. In the case of promotion then I
21 went to Vancouver. Then TCA took a great resurgence in
22 life and I was transferred to Moncton. Then there was
23 a man who did not pass in his course in Toronto and I
24 went to Toronto and took promotion there. That shows
25 that it is a roving life over a period.

26 COMMISSIONER WALLS: The question I was going
27 to ask is that alternatively to solving your problem or
28 trying to solve your problem by taxation, have you not
29 used this point as a term of negotiation with your
30 employers. There are a number of precedents for it in



1 contracts today, with mine workers and woodworkers. It
2 would seem to me that there is a great deal of merit in
3 your case, but that it is rather a matter for your union
4 negotiating ~~on~~ and taking that into consideration as
5 an added expense in your contract, rather than looking
6 toward taxation to solve a circumstance that makes it
7 rather difficult to draw a line between your circumstances
8 and those of other citizens.

9 MR. McCREA: We have endeavoured to negotiate
10 with our company on that and have not been successful.
11 It is a question of transportation and travelling
12 allowances. Even though TCA may be a Government-owned
13 concern, it is very efficient and is an economic carrier
14 and they give us only what we can get by negotiation.
15 We have been unsuccessful on that point. Mr. McAlpine
16 believes we should be reasonably considered under the
17 Act.

18 MR. McALPINE: There is one point I would like
19 to make in regard to the allowances. In the first
20 draft of our brief we considered this as an alternative
21 amendment. There is no exemption at the moment for an
22 allowance. I think TCA would make an allowance to the
23 pilots to cover home to airport expense and that would
24 be taxable income. We have thought of suggesting a
25 provision in the Act under which we could receive this
26 type of allowance without tax on it. Our preference was
27 to recommend that it be allowable expenditure. I think
28 that the other way you may be doing something for us,
29 but our position would be somewhat the same as that
30 of a construction worker who gets an allowance for



1 travelling from his home to the construction site, not
2 to be taxed on it, because of the special section, although
3 it will deprive the revenue of some money.

4 THE CHAIRMAN: What you want is an amendment
5 to the Act, making the deduction from airline pilots'
6 salaries for travelling expenses from home to airport.
7 With what limit? Any limit?

8 MR. McALPINE: We had some concern as to the
9 best method of handling it, to authorize a regulation
10 which would fix a flat amount, five or six hundred
11 dollars a year, to put some restriction, to deal with a
12 person who wants to live at Barrie to get to Malton. Take
13 the man who lives in Toronto in the west end. That might
14 be reasonable. Our feeling was that it should be an
15 amendment to the Act rather than a regulation fixing a
16 flat amount, that the allowance would be a reasonable
17 amount necessarily incurred and the Department assessors
18 could look after this and see that no one got any excessive
19 deduction.

20 THE CHAIRMAN: I understand your point.

21 MR. McALPINE: If you are four or five miles
22 from the airport. Toronto may be a good example to take.
23 However, it may happen that you are living at Etobicoke,
24 which happens to be nearer the airport, but happens to
25 be one of the most expensive places to live. In the
26 case of cases like Edmonton they are looking forward to
27 considerable expansion in their city and they have the
28 airport 22 miles from the centre of the town. Between
29 the actual town limits and the airport there is virtually
30 nothing. The pilot there would have to incur this



1 expense to get to the airport --- unless he wants to
2 live on a farm.

3 COMMISSIONER WALLS: On the other hand, in
4 Winnipeg you have the opportunity of living within two or
5 three miles of the airport.

6 MR. McCREA: That is why it should be controlled
7 expenditure.

8 MR. MARTYN: That does not cover them all. As
9 has been said, in most cases two cars are necessary. I
10 think it is mostly the reserve pilots who have the
11 difficulty and there I think it is absolutely mandatory.

12 THE CHAIRMAN: The Act might specify that
13 reserve pilots' cars would get the allowance.

14 MR. McALPINE: We have some difficulty with
15 the blockholders. It is not as clear. The blockholder
16 has regular hours every day, but the blockholder has the
17 same trouble in getting to the airport at three o'clock
18 in the morning.

19 There are two examples which I might mention
20 in the case of the pilots on the "swamp". I do not know
21 if there is anyone here from the east. They speak of
22 everything "in the swamp" --- which means the Maritimes.
23 We have two cases, the Maritimes and the Vancouver
24 weather conditions, where the blockholder is subject to
25 extreme variations in times he reports and gets away
26 from the airport. The weather creates all sorts of
27 disturbances. It is not so bad in Winnipeg. The block-
28 holder has extreme difficulties in the Maritimes and in
29 Vancouver.

30 MR. MARTYN: There is another point about the



1 blockholder. If the blockholder is not available, TCA
2 has to cover the flight with a reserve pilot. The company
3 knows that they have people who have to get to their
4 destinations and regardless of what happens you have to
5 get out there and take a flight. Mr. McCrea may be
6 sitting at home and have a number of guests at a dinner
7 party. TCA can call up and say: "We have a flight to
8 Winnipeg in half an hour, there is no one else, we will
9 have to ask you to take it." The blockholder does have
10 to cover a lot of unusual instances where a second car is
11 necessary.

12 MR. McALPINE: I would like to ask Capt. McCrea
13 is there much experience of the blockholder placing him-
14 self on call in making up the 25 hours?

15 MR. MCCREA: We have the group divided, you
16 might say, into two parts, the money people and the time-
17 off people. The money people have the larger group and
18 they try to get all the money they can. They want to
19 fly as much as possible. That was one of the causes
20 given in the case of accidents in the United States.
21 They were trying to crowd on this 85 hours. In Canada
22 we have greater discipline in our flying. You may have
23 the urge to make money, but you would lose your job by
24 breaking regulations and so on. The majority try to get
25 85 hours. The blockholders do 72 and 73 hours, but as
26 you said, I think it is the reserve men who need
27 consideration. If any consideration is to be given to
28 anyone, it should go to the reserve men.

29 COMMISSIONER MILNE: I should like to ask one
30 question on this point. The Chairman has pointed out



1 that the situation is considerably aggravated by the
2 reserve pilots. Nevertheless, this submission is not
3 just for the reserve pilots?

4 MR. McALPINE: No, we feel that if there were
5 a controlled provision in the Act, it would cover such
6 things as meal allowances and transportation. They have
7 the right to call and say: "Where are you?" They have
8 the pay sheets and time sheets and they know where you
9 are any day of the hour or month. Then, if the man was
10 not regular, in the case of a blockholder, he would have
11 a claim. But the reserve man would have a claim in all
12 cases, as the majority of his journeys would be subject to
13 the claims.

14 COMMISSIONER GRANT: Mr. McAlpine, to give
15 effect to the submission by changing The Income Tax Act --
16 would you consider that this should be applicable to
17 employees of all common carriers?

18 MR. McALPINE: We discussed this in some measure
19 when preparing the brief. We discussed the question that
20 everyone has to get from home to office and from office
21 to home, and the expenditure incurred. I have in mind
22 the brief put in by the Association of University Teachers,
23 who said that employees should be treated as professional
24 people, because they are carrying on business, even
25 though they are employees. We debated whether to say
26 we were a special case or that everyone should get it.
27 Our conclusion was that we had special problems, because
28 of the hours of reporting, the lack of cheap public
29 transportation and that any amendment of the Act, as far
30 as we were concerned, would cover the airline pilots.



1 We do not feel that it is like the railway employee or the
2 employee of the steamship company.

3 COMMISSIONER GRANT: You do not think that this
4 would apply to Canadian National or Canadian Pacific,
5 which have reserved train crews, subject to call in
6 certain circumstances similar to what you have in the
7 case of pilots for TCA, that they would have a strong
8 case for similar treatment?

9 MR. McALPINE: If they are on reserve and must
10 report at all hours, I would agree that they are entitled
11 to the same treatment.

12 MR. McCREA: They would have greater difficulty
13 in proving their case. The usual journey they have to
14 make is in towards the centre of the town. In our case
15 we are heading out into the wilderness.

16 COMMISSIONER GRANT: I thought that the trend
17 was toward suburban living.

18 MR. McCREA: All those people want to get down-
19 town. In the case of our pilot he would be going in the
20 opposite direction.

21 COMMISSIONER GRANT: He may prefer to live in
22 the suburbs.

23 MR. McCREA: The transportation system is
24 usually designed to take people in to the centre of the
25 city from their homes and back again and there is very
26 little suburban transport operating beyond the city
27 limits.

28 THE CHAIRMAN: Your distances are probably
29 greater.

30 MR. McALPINE: You might have a railway man in



1 a Toronto marshalling yard north of Agincourt and have
2 the marshalling yard in If you have
3 railroads getting marshalling yards in other points, they
4 would have the same difficulty as we have in the case of
5 the men getting there.

6 COMMISSIONER PERRY: I wonder if there are
7 other groups, not connected with transportation, who
8 might be under similar calls. Take the case of policemen
9 or firemen. There is no reason whatever why you should
10 know anything about these people, but I wonder whether in
11 fact you do know.

12 MR. MCCREA: I feel that the fireman is on
13 routine call. They are on call if there is a major
14 outbreak. I feel they would come under the same considera-
15 tion then as that for which we are asking.

16 MR. McALPINE: We have no knowledge of what
17 they are getting under the Act, but we assume they are
18 not getting anything.

19 THE CHAIRMAN: No. Shall we move to uniforms
20 now?

21 MR. MARTYN: In regard to uniforms, Mr. McAlpine
22 will address you. I have brought specimens of uniforms
23 with me.

24 MR. McALPINE: I have three additional exhibits
25 to file.

26 THE SECRETARY: Do you wish to enter these into
27 the record as exhibits?

28 MR. McALPINE: Yes. I label these as Appendix
29 F, Appendix G and Appendix H. In the brief dealing with
30 uniforms I gave the Department ruling which we received.



1 That Department ruling referred to the South African case
2 and as this is a legal presentation I thought that the
3 South African case would not really be relevant under
4 our Act, so I labelled it Appendix E. That is the reason
5 why I have labelled these F, G and H.

6 THE SECRETARY: I would like to enter into the
7 record now Appendix F as Exhibit 218, Appendix G as
8 Exhibit 219 and Appendix H as Exhibit 220.

9
10 ---EXHIBIT NO. 218:

Appendix F,
Appendix G,
Appendix H.

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16 MR. McALPINE: On page 7 of the brief, I refer
17 to the Department ruling on this type of expenditure,
18 that the expenditures are capital outlays. The South
19 African case involved Supreme Court lawyers there on this
20 point. The Supreme Court said it was not subject to
21 capital expenditure.

22 THE CHAIRMAN: Subject to capital cost allowance.

23 MR. McALPINE: They do not get capital cost
24 allowance in South Africa. Our case in Canada brought in
25 artists and musicians who have been able to get a special
26 capital cost allowance on their costumes.

27 I have mentioned that the only reason for the
28 numbering was that in the case of this South African
29 case it was copies as Appendix E. Could I correct the
30 mathematical error on page 15 of the brief. In the



1 column for the pilots' share, the figures should be:

2	Tunic and trousers	\$40.00
3	Extra trousers	\$10.00
4	Six shirts	\$30.00
5	One pair shoes	\$20.00
6	One tie	\$ 1.50
7	Six pair socks	\$9.00
8	One topcoat	\$30.00
9	Total	\$140.50

10 The total is correct. As mentioned in our
11 submission, pilots' employment is governed by the basic
12 agreement between the Association and the particular air-
13 line. That occupies a number of pages. Then in addition
14 there are rules of procedure. For example, I have here a
15 TCA operating manual, which covers many points. Then
16 there are flight schedule rules which are issued in the
17 form of a bulletin. Every schedule of rules gives a lot
18 of details as to how a pilot must report to work. I do
19 not think those are relevant here. I have filed extracts
20 from the employment contract, namely the union agreement
21 between the Canadian Pacific and the Association, as
22 Appendix H, and that between TCA and the Association as
23 Appendix G. Then as Appendix F I have given the extract
24 from the operation manual of the TCA, which deals with
25 the uniform supplies that a pilot must have. Perhaps
26 Mr. Martyn would carry on and describe the uniform and
27 what is involved.

28 MR. MARTYN: I have the items about which we
29 are claiming and I have brought them along to describe
30 them. This is a topcoat (Indicating). It is the sort of



1 coat that you could wear with a suit or anything else.
2 However, in our business, most of our people who are
3 associated with me, and many of my friends are associated
4 with TCA, would spot that TCA overcoat four blocks away
5 if I were wearing it.

6 The next item is one that I do not think there
7 any dispute about. It is this (Jacket is produced). I
8 do not think anyone could go to a party in a jacket like
9 this.

10 THE CHAIRMAN: It is very good looking, indeed.

11 MR. MARTYN: We bear the total cost of the
12 overcoat. Of the uniform, we bear half the cost, except
13 for braid and buttons, which the company bears completely.
14 The hat the company supplies. The tie is a uniform tie
15 which I do not think you can deal with. It can be worn
16 with a general business suit. The socks are regular
17 black socks. Normally we like a little colour. The
18 pants are regular uniform pants. (Items produced) The
19 shirt, however, is considerably different. We do not
20 wear jackets in hot weather in the Summertime and these
21 shirts are made with tabs which we wear. The pockets
22 are on the larger side so that we can hold flight material
23 in them. You can see that one would not normally wear a
24 shirt like that with a regular suit, though one could do
25 so, I suppose.

26 THE CHAIRMAN: I would have no objection.

27 MR. MARTYN: The shoes are Air Force type, which
28 is the regulation shoe.

29 MR. McALPINE: In Appendix F we show how this
30 is covered. It is specified that the items are ordered



1 through Flight Operations Headquarters, but the shirts
2 are acquired from TCA stores. You will notice on the
3 last page of Appendix F that it says, under "Appearance"
4 "neat and dry-cleaned at regular intervals."

5 The figure which is given in page 15 of the
6 brief represents an average annual consumption. The
7 topcoat lasts three years, so we divided the \$60.00 into
8 two items of \$30.00 for the annual expenditure. We
9 also have some supplies involved in addition to the
10 uniform. These are covered in Appendix F, and on each of
11 them Mr. McCrea can comment.

12 MR. MCCREA: We left out a number of things
13 which could be worn at all times. We are required to
14 have these particular items. There is mention of over-
15 shoes. I would not wear them, but most have overshoes.
16 They are to be regular, black, cloth top, zipper front
17 galoshes, like the Air Force zippers which are regulation
18 in TCA. The pilot must have a regulation scarf and
19 regulation gloves. We have not included these in the
20 cost summary, because they are things which can be
21 converted to use other than on the airline.

22 Also once in your lifetime you get a briefcase.
23 If they get on one of the heat ducts they curl up. We
24 feel that about three years one should get another one.
25 You must have a really good flashlight available in your
26 briefcase. Ordinarily you are bringing down the wheels
27 mechanically and that is fine, but if you have to do it
28 manually you have to take up the floor boards and it is
29 quite a job. This is supplied by the pilots themselves.

30 Then there is the case of earphones. Had I



1 worn earphones of my own purchase at \$25.00 or \$35.00,
2 I would not be suffering from Norstad ears. My left ear
3 is pretty well gone, but my right one is fine. One does
4 not mind the engine, it is a wonderful engine and
5 extremely reliable, but many of the pilots do find they
6 wish to have their own earphones. The companies say that
7 is fine, that it is up to us.

8 Possibly these are trivial things, but they
9 are things upon which we must spend money.

10 There are also the maps. It is all radio
11 navigation now, so it is a question of suit yourself.
12 We normally carry maps and these cost quite a lot. We
13 have topographical maps. But there may be occasions
14 where ~~the~~ radio reception is not so good and one may want
15 to get down to a pinpoint.

16 In regard to the briefcase itself, it is supplied
17 by the pilot. If it is not in good shape and not
18 respectable, you are spoken to and you have to buy another
19 one. There is a bit of military air about the life, but
20 you provide these things out of your own pocket. As to
21 the total of \$140.00 given in the brief, there is
22 probably another \$40.00 which we have not added and
23 which comes out of the pilot's pocket.

24 THE CHAIRMAN: Thank you.

25 MR. McALPINE: I have a great deal of difficulty
26 myself with some parts of what you are putting forth, and
27 not with others. I can quite accept those things which
28 are tools of the trade and which you buy, as a matter of
29 principle and perhaps not as a matter of coming under
30 the Act. I can accept the principle very easily, where



1 you need a flashlight and you need a computer and so on.
2 However, as to one's clothes, which are a substitute for
3 what everybody else wears all the time, it seems to me
4 that those are part of the cost of living, even though
5 they may not be very appropriate or may be different
6 clothes. By convention, we all wear clothes. If you
7 care to make the case by convention we do not wear
8 clothes, but you are compelled to do so, you may have a
9 point. But because you wear different clothes I find it
10 extremely difficult to see any justification for that.
11 It is just the same as the professors argue in regard
12 to the need for gowns. I can remember in the past lots of
13 things being said about the advantages of gowns, that
14 they protect one's clothes. I am sure that there is no
15 economic loss because of uniforms, gowns, or the cost of
16 clothes, if you are wearing a suit out of the office.
17 Therefore, the reason for that escapes me, but the
18 reason for the tools of trade does not.

19 MR. McALPINE: In regard to uniforms, on the
20 basic issue, where there is expenditure, one might talk
21 about people who have to have costumes in which to appear
22 on a stage. A person might argue that if they are
23 wearing a costume for a couple of hours every night, of
24 course they are not wearing their own clothes, so the
25 clothes should last longer. However, if one is engaged
26 in business as a professional entertainer and not as an
27 employee, there are cases in which that type of
28 expenditure is allowed as an expenditure of the business.
29 Our position is that simply because an employee does not
30 change his essential character, that this expenditure is



1 for the purpose of earning the income, it has no personal
2 use whatsoever. It is made for use during the hours of
3 employment, in the performance of the duties, just as
4 much as the tools are used.

5 It is true that if he were wearing his uniform
6 for eight hours, he would not be wearing his clothes and
7 I suppose his ordinary clothes ought to last twice as
8 long. That is a theoretical argument. In practice that
9 does not happen. There is an extra expense there, I think.
10 I suppose they are not any more expensive than an ordinary
11 suit of clothes, but they are prescribed by the employer.
12 My submission is that the employer should be treated in
13 this type of situation in the same manner as a person
14 carrying on a business, that there is no reason why that
15 should not occur, where the employer requires him to
16 provide these things.

17 THE CHAIRMAN: Then do you think your client
18 suffers a financial disadvantage because he wears
19 uniforms as against those who wear ordinary clothes?

20 MR. McALPINE: I am almost tempted to turn that
21 over to the economist.

22 THE CHAIRMAN: You are tempted to say no.

23 MR. McALPINE: I do not know whether the
24 financial disadvantage is so significant. Perhaps I
25 could get back to the person carrying on business, first
26 as a professional performer. Let me take the case of
27 an operatic singer performing in Othello. He has to
28 have a particular costume for that. As a professional,
29 he can deduct that. I do not think they look for
30 financial advantage, it is a business expenditure on that



1 business. Here it is a special uniform. It is not the
2 pilot's choice, but the employer's choice. The employer
3 wants the pilot to be dressed in this way. He says you
4 have to have this, and it is part of the intrinsic per-
5 formance of his job.

6 THE CHAIRMAN: I suppose the pilots are not
7 against this. They look rather nice in uniform.

8 COMMISSIONER GRANT: The employer makes a
9 concession to the pilot for the requirement of putting him
10 in the uniform, does he not. The schedule shows that the
11 pilot has not to pay the full cost.

12 MR. McALPINE: That is right. The company pays
13 part of it. In regard to the trousers, the companys
14 bears 50%, in the case of the hat the company bears
15 100%, in the case of the hat badge and the wings the
16 company bears 100%, in the case of the shirt and tie the
17 pilot bears 100%. Then there are some cases where the
18 company bears half the cost.

19 THE CHAIRMAN: Therefore, I should have raised
20 my previous question not as to disadvantage but as to
21 advantage. However, I can cover that now.

22 COMMISSIONER MILNE: This is really not too
23 difficult. Mr. McCrea did mention that in remuneration
24 you are fairly high in income. Quite apart from the
25 United States they receive more.

26 MR. MCCREA: With the reservation of short
27 working life.

28 COMMISSIONER MILNE: I am sure the Chairman
29 would back me up that in many chartered accountants'
30



1 offices there is a certain standard as to how students must
2 be dressed, and they are not on ~~any~~ high financial pay
3 scale. It is true that it is not different clothing and
4 possibly ~~has~~ a longer period of wear.

5
6 I am sure that in their particular field of
7 activity the reason they must be well-dressed is because
8 they attend ~~at~~ a variety of clients' offices and they
9 must at all times appear well-dressed in the eyes of the
10 public. On the other hand if one were doing accounting
11 jobs in one office one might wear a shirt without a
12 jacket. I believe there is a distinction here.

13 MR. MCCREA: I quite agree on the point that
14 the chartered accountant in the training stage is
15 training, as a pilot did, for a fairly remunerative
16 occupation when he gets to TCA. However, the accountant
17 goes on up to 65 or even longer, whereas we are chopped
18 off at 40 or 42, or perhaps earlier.

19 THE CHAIRMAN: Take the case of a person who
20 is just short of 65. I am wearing a suit, while you are
21 wearing uniforms. I cannot see the difference.

22 MR. McALPINE: Taking the lawyer's profession,
23 I cannot deduct the cost of an ordinary suit that I use
24 daily. The cost of my gown I hope I can deduct.

25 THE CHAIRMAN: That is something we must look
26 into.

27 MR. McALPINE: We tried to get the rule in
28 other jurisdictions. In the United Kingdom they get a
29 flat allowance of thirty pounds a year. We checked with
30 the Americans, but they do not want to become involved as



1 they are assessed on a regional basis rather than on a
2 national basis.

3 THE CHAIRMAN: You mean they can argue about it
4 in each particular region and that each can have some-
5 thing different?

6 MR. McALPINE: Yes.

7 COMMISSIONER WALLS: While they get this grant
8 in the United Kingdom, is it not the case that the pilot
9 pays entirely for his uniform in the United Kingdom?

10 MR. MARTYN: That would depend. We have no
11 figures for them. It would depend on the company. I
12 imagine that BOAC would bear a portion of the cost.

13 MR. McCREA: We say that BOAC pays pilots for
14 prestige rather than cash.

15 MR. McALPINE: They get 17 pounds in England
16 as an allowance for the cost of upkeep of uniforms and
17 replacement which is not supplied by the company. The
18 17 pounds a year is just a rough and ready amount.

19 THE CHAIRMAN: That is a tax deduction?

20 MR. McALPINE: That is right.

21 MR. MARTYN: I could compare the uniform in Mr.
22 McAlpine's case. He has a choice, in the suit of material,
23 as to what he will wear. In our case we have no choice.
24 We have to wear this item. I think we are robbed when we
25 buy them. As regards this item, if I get a year out of
26 it I am extremely lucky. I have never got a year yet.
27 An officer in the RCAF is forced to buy a uniform.

28 THE CHAIRMAN: I think you have point there,
29 even if you are better dressed than Mr. McAlpine.

30 MR. McALPINE: I think our basic submission on



1 uniform and tools is an amendment of the Act which would
2 permit as a deduction in computing income from employment,
3 expenditures, I would not use the word "necessarily", but
4 "reasonably" incurred in the performance of duties. It
5 may be expenditure on uniform or tools or maps or things
6 of that kind, not only that apply to pilots but to anyone
7 who had to incur expenditures in the performance of
8 duty. That would put the employed person to some extent
9 on the same basis as the self-employed person.

10 THE CHAIRMAN: If you are going to do that, you
11 would have to withdraw the application. I suspect,
12 because we have had a great many representations on that
13 particular point. It would really take your people out of
14 a special category, I think, and put them into the general
15 category, in which your clients say that the employed
16 people are at a greater disadvantage than people with
17 their own businesses or professions.

18 MR. McALPINE: So far as uniforms are concerned,
19 the pilots are not unique, as they are in the case of the
20 claim for travelling expenses. We are not any different
21 from those who are required by the terms of ---

22 THE CHAIRMAN: We understand this very well.
23 We will continue to consider it.

24 This is a very well prepared submission and I
25 do not think there is any further question we can ask.
26 It seems to me you have given us a complete submission.
27 Thank you very much for coming today to assist us in our
28 job.

29 THE SECRETARY: Mr. Chairman, I have two briefs
30 also to enter into the record. We received a brief from



1 the Grand Orange Lodge of British America which I file as
2 Exhibit 216. That was received on September 24. On
3 September 12 we received a brief from Mr. Geoffrey Shaw
4 of St. John's, Newfoundland, which I would like to enter
5 as Exhibit 217. That is all, Mr. Chairman.

6
7 ---EXHIBIT NO. 216: Submission of the Grand Orange
8 Lodge of British America.

9 ---EXHIBIT NO. 217: Submission of Mr. Geoffrey
10 Shaw.

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14 ---Whereupon the hearing was adjourned.
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